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ABSTRACT

Materials on intellectual property are presented to help university research administrators negotiate and administer sponsored research agreements. The nine units cover: patents and patent rights, patent rights under government contracts, university patent policies and practices, patent clauses in industrial research agreements, patent licensing agreements, the law of copyrights, university copyright policies, copyright clauses in industrial research agreements, and software licensing agreements. Specific topics include: patentable subject matter, patent applications, government rights in patents, the acquisition of federal rights in an invention made possible in part by federal funds, patent rights under government contracts, college patent policy, administration and development of inventions, inventions under sponsored research programs, inventions disclosure, licensing agreements, university copyright policies, and the 1978 copyright law. Included are the text from the Federal Register on patent rules and regulations, a Copyright Office circular, a section of the United States Code on copyrights, guidelines to help colleges develop copyright policies, and a sample software license agreement. (SW)

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INTELLECTUAL PROPERTY SERIES

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Introduction to

PATENTS AND PATENT RIGHTS

Workshop Materials - NCURA Intellectual Property Series - 1984

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Introduction to

PATENTS AND PATENT RIGHTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

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Introduction to

PATENTS AND PATENT RIGHTS

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1. PATENT LAW

The United States Constitution

Article 1, Section 8 of the Constitution provides that:

> "The Congress shall have power...to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and inventors the exclusive Right to their respective Writings and Discoveries."

Under this broad Constitutional authority, the Congress has enacted the Patent Laws, Title 35 of the United States Code, and the Copyright Laws, Title 17 of the United States Code.

The economic philosophy behind this Constitutional authority to grant patent and copyrights is the conviction that the opportunity for personal gain will provide an incentive for authors and inventors to devote their talents to science and the useful arts to the ultimate benefit to the public. As stated in an early court decision, the authority of Congress is exercised in the hope that the "productive effort thereby fostered will have a positive effect on society through the introduction of new products and processes of manufacture into the economy, and the emanations by way of increased employment and better lives for our citizens."

In order to provide an incentive for research and inventiveness and for disclosing the results, thereby promoting scientific progress, the U.S. patent laws grant to the inventor, the right to exclude others from making, using or selling his/her invention for a limited period.

Without this protection, anyone who learns of another's invention (assuming it does not violate a nondisclosure agreement or other legal obligation) would be free to copy that invention and make full use of it in the same manner as the inventor, and without having shared any of the costs incurred in its development.

In return for this exclusive right, however, the inventor must make a full disclosure of his invention to the public. The purpose of disclosure is to spur other inventors into activity and make possible additional advances in the art, and to ensure that the public gains the benefit of the original invention after a limited period.

Title 35, United States Code

Under the authority of Article 1, Section 8, of the Constitution, Congress has from time to time enacted various laws relating to patents. The first patent law was enacted in 1790. The law now in effect is a general revision which was enacted on July 19, 1952. The U.S. patent laws are found in Title 35 of the U.S. Code and are reprinted in a pamphlet entitled Patent Laws, which is sold by the Government Printing Office.

The scope of 35 U.S.C. is indicated by the following table of chapters:

Part I - Patent and Trademark Office

1. Establishment, Officers, Functions
2. Proceedings in the Patent and Trademark Office
3. Practice before Patent and Trademark Office

Part II - Patentability of Inventions and Grant of Patents

10. Patentability of Inventions
11. Application for Patent
12. Examination of Application
13. Review of Patent and Trademark Office Decision
14. Issue of Patent
15. Plant Patents
16. Designs
17. Secrecy of Certain Inventions and Filing Applications

Part III - Patents and Protection of Patent Rights

25. Amendment and Correction of Patents
26. Ownership and Assignment
27. Government Interest in Patents
28. Infringement of Patents
29. Remedies for Infringement of Patents and Other Actions

Part IV - Patent Cooperation Treaty

35. Definitions
36. International Stage
37. National Stage
38. Patent Rights in Inventions Made with Federal Assistance

2. THE NATURE OF PATENTS AND PATENT RIGHTS

The "Right to Exclude"

A patent is issued in the name of the United States. It grants to the patentee "the right to exclude others from making, using or selling the invention throughout the United States" for a term of 17 years. The patent contains the grant and a printed copy of the specification and drawing, which are annexed to the patent and form a part of it.

Since the essence of the right granted by a patent is the right to exclude others from commercial exploitation of the invention, the patentee is the only one who may make, use or sell his invention. Since a patent is a property right, it may be sold or assigned, pledged, mortgaged, licensed, willed or donated, and may be the subject of grants, contracts and other agreements. It may be controlled by the exercise of the exclusive rights which the patent grants, or by permitting others to exercise such rights under the terms of a license agreement.

The exact nature of the right conferred must be carefully distinguished, and the key is in the words "right to exclude." The patent does not grant the right to make, use, or sell the invention. The patent only grants the right to exclude others from doing so.

Since the patent does not grant the right to make, use or sell the invention, the patentee's own right to do so depends upon the rights of others and whatever general laws might be applicable. Merely because he has received a patent for an invention, a patentee is not thereby authorized to make, use or sell the invention if it is prohibited by law, violates state licensing requirements, infringes the prior rights of others, violates the anti-trust laws, etc. Ordinarily, however, there is nothing which prohibits a patentee from making, using or selling his own invention unless he thereby infringes another patent which is still in force.

Patent rights are purely statutory: there is no definitive body of common law relating to patents as such. However, assuming that his invention is not illegal and does not infringe another patent, an inventor has the right, independent of the Constitution and the patent laws, to make, use sell and otherwise enjoy his invention. These rights are sometimes spoken of as an inventor's common law rights and are subject to the protection of that law. If, for example, an inventor discloses an unpatented invention to another individual under agreement of confidentiality, that individual, if he breaches that agreement and attempts to manufacture an article which embodies the invention, may be liable for damages on the basis of common law and equity.

Assignment

As noted in the preceding section, a patent is personal property and may be sold, assigned, pledged, mortgaged, licensed, willed or donated, and may be the subject of grants, contracts and other agreements. The patent law provides for the transfer or sale of a patent, or of an application for

a patent, by an instrument in writing. Such an instrument is referred to as an assignment and may transfer the entire interest in the patent. The assignee, when the patent is assigned to him, becomes the owner of the patent and has the same rights that the original patentee had.

The statute also provides for the assignment of a part interest, that is, a half interest, a fourth interest, etc., in a patent. There may also be a grant which conveys the same character of interest as an assignment but only for a particular, specified part of the United States.

An assignment, grant, or conveyance of any patent or application for patent should be acknowledged before a notary public or officer authorized to administer oaths or perform notarial acts. The certificate of such acknowledgement constitutes prima facie evidence of the execution of the assignment, grant, or conveyance.

The Patent and Trademark Office records assignments, grants and similar instruments sent to it for recording , and the recording serves as notice. If an assignment, grant or conveyance of a patent or an interest in a patent (or an application for patent) is not recorded in the Patent and Trademark Office within three months from its date, it is void against a subsequent purchaser for a valuable consideration without notice, unless it is recorded prior to the subsequent purchase.

Joint Ownership

Patents may be owned jointly by two or more persons, as in the case of a patent granted to joint inventors or where there is an assignment of a part interest. Any joint owner of a patent, no matter how small his part interest, may make, use, and sell the invention for his own profit, without regard to the other owner, and may sell his interest or any part of it, or grant licenses to others without regard to the other joint owner, unless the joint owners have entered a contract governing their relation to each other. It may, therefore, be unwise to assign a part interest without a definite agreement between the parties as to the extent of their respective rights and their obligations to each other.

Licenses

The owner, or joint owner, of a patent may grant licenses to others. A license is the permission granted by the patent owner to another to make, use or sell the invention. No particular form of license is required. A license is a contract and may include whatever provisions the parties agree upon, including the payment of royalties, etc.

Government Rights

The United States does not, by granting a patent, thereby acquire the right to use it. Such rights must be acquired in some manner, as, for example, by contract, by purchase, as a condition of employment for its own employees, etc. For small businesses and nonprofit organizations, government rights are determined in accordance with Public Law 96-517 and OMB Circular A-124, which are discussed in the paper in this NCURA series entitled Patent Rights under Government Contracts.

3. WHAT CAN BE PATENTED: PATENTABLE SUBJECT MATTER

Statutory Subject Matter

The patent law specifies the general field of subject matter that can be patented (i.e., statutory subject matter) and the conditions under which a patent may be obtained.

35 U.S.C. Chapter 10 deals with the patentability of inventions. Sec. 101 describes patentable subject matter as follows:

> " Whoever invents or discovers any new and useful process, machine, manufacture, or composition of matter, or any new and useful improvements thereof, may obtain a patent therefor, subject to the conditions and requirements of this title."

(a) Process

Sec. 101(b) states that:

> "The term process means process, art or method, and includes a new use of a known process machine, manufacture, composition of matter or materials."

A statutory process may consist of a combination of physical or manipulative steps. Where it consists of more than one step, patentability may depend on various factors, such as the particular arrangement, order or sequence of individual steps which are not novel in themselves. On the other hand, if the combinations of steps is not new, patentability of a process may depend on the materials used. Depending on the circumstances, computer software may be eligible for patent protection as part of a patentable process.

(b) Machine

As the terms are used in patent law, "machine" is virtually interchangeable with mechanism, device, engine or apparatus, the latter term being more common in practice. The term "machine" includes tools and other implements intended for use by hand. The particular way in which the components are arranged, as well as the nature of the components themselves, are the parameters which define and distinguish a machine.

(c) Manufacture

This is synonymous with "articles of manufacture" and refers to articles which are man-made. The Supreme Court has held that to obtain a patent for a product made from raw material, it must possess a new or

distinctive form, quality, or property. Excluded are articles whose appearance, properties, function, form, and/or shape have been only slightly altered in the manufacturing process.

(d) Composition of matter

This relates to chemical compositions and may include mixtures of ingredients as well as new chemical compounds. A mixture is deemed to be new even where the only novelty is in the proportions of the constituent ingredients. The novelty of a mixture may also reside in the arrangement or segregation of its ingredients. The patentability of a composition of matter may turn not only upon the novelty of its ingredients but on the manner in which these are combined.

After protracted litigation, the Supreme Court has held that live bacteria, and perhaps other forms of living microorganisms, that result from genetic engineering, such as gene splicing, and which do not occur naturally, are patentable subject matter as compositions of matter or as articles of manufacture (Diamond vs. Chakrabarty (1980)).

The court stated that "In choosing such expansive terms as 'manufacture' and 'composition of matter' modified by comprehensive 'any,' Congress plainly contemplated that the patent laws would be given wide scope." However, the court noted further that:

> "This is not to suggest that 101 has no limits or that it embraces every discovery. The laws of nature, physical phenomena and abstract ideas have been held not patentable. Thus a new mineral discovered in the earth or a new plant found in the wild is not patentable subject matter. Likewise, Einstein could not patent his celebrated law that $E=mc^2$ nor could Newton have patented the law of gravity. Such discoveries are manifestations of nature, free to all men and reserved exclusively to none."

Other Statutory Subject Matter

Designs - The patent laws (35 U.S.C Chapter 16) provide for the granting of design patents to any person who has invented any new, original and ornamental design for an article of manufacture. The patentability of a design rests in its appearance, and all portions of it are material in that they contribute to the overall appearance which constitutes the design. Some physical objects may have aspects which are patentable as a manufacture and others which are patentable as a design. A patentable design, like a patentable process, machine, manufacture or composition of matter, must be new and unobvious, but the requirement of utility does not apply. Patents for design are granted for a period of up to 14 years.

Plants - The patent laws (35 U.S.C. Chapter 15) also provide for the granting of a patent to anyone who has invented or discovered and asexually reproduced any distinct and new variety of plant, including cultivated sports, mutants, hybrids, and newly found seedlings. Specifically excluded from plant patent protection are tuber propagated plants (because of their

importance as a food source) and plants found in an uncultivated state. Asexual reproduction refers to vegetative propagation, i.e, without the use of seed). Patents for plants confer upon the patentee the right to exclude others from asexually reproducing the plant and from selling and using any plants so reproduced. What constitutes a distinct plant variety within the meaning of the plant patent act appears to be a plant which possesses at least one significantly different characteristic, such as color, immunity to disease, size or shape, etc.

In addition, the Plant Variety Protection Act provides patent like protection to breeders of plants that have been reproduced by sexual means, i.e., by seed. It is administered by the Office of Plant Variety Protection in the Department of Agriculture. Grants under the Plant Variety Protection Act are called certificates of plant variety protection.

Nonstatutory Subject Matter

(a) Specifically excluded by statute. Certain subject matter is specifically excluded from patent protection by the patent law itself. The principal example is the exclusion of certain plants, as noted in the preceding section.

Some subject matter which might otherwise fall into the statutory classes defined under the patent law is excluded by other statutes. For example, the Atomic Energy Act contains a blanket provision excluding from patent protection any invention or discovery which is useful solely in the utilization of special nuclear material or atomic energy in any atomic weapon. Anti-radiation agents have been deemed not to constitute such special nuclear materials and are, therefore, statutory subject matter.

(b) Discoveries. Often considered as a class of unpatentable subject matter is that which is so broad as to be incapable, as a practical matter, of adequate definition and/or which is not really new but was merely unknown or unappraciated previously. Such inventions are more appropriately styled discoveries and have been characterized in the court decision quoted in a preceding section. They include principles or laws of nature and naturally occurring articles.

(c) Other. Another class of subject matter has been excluded by judicial construction and includes, for example, printed matter (which may be protectable under the copyright laws but does not have novelty based on its physical structure), methods of doing business (which may be protected to some extent unde the law of trademarks), and mental processes.

4. CONDITIONS FOR PATENTABILITY

Novelty, Utility and Non-obviousness

The requirements of novelty, utility and non-obviousness derive from 35 USC 101, 102, 103.

(a) Novelty

35 U.S.C. Sect. 102. Conditions for patentability; novelty and loss of right to patent, reads in part as follows:

"A person shall be entitled to a patent unless --

"(a) The invention was known or used by others in this country, or patented or described in a printed publication in this or a foreign country, before the invention thereof by the applicant for patent, or

"(b) The invention was patented or described in a printed publication in this or a foreign country or in public use or on sale in this country, more than one year prior to the date of the application for patent in the United States."

In other words, a patent cannot be obtained on an invention described in a printed publication anywhere, or known or used by others in the United States, before the invention is made by the applicant. Nor can a patent be obtained if the invention has been described in a printed publication anywhere, or has been in public use or on sale in this country, more than one year before the date on which a patent application is filed in this country. Regardless of when the invention was made, if the inventor, or someone else, describes the invention in a printed publication, uses it publicly, or places it on sale, the inventor must apply for a patent before one year has gone by, or lose the right to do so.

Although there is a one year grace period in the United States for filing a patent application following publication, most other countries require "absolute novelty" as a condition for obtaining patent protection. Absolute novelty is destroyed if the invention is published or publicly disclosed prior to the filing of a patent application in that country or some other country. Consequently, issues relating to the dissemination of research results are quite likely to arise when a university or a research sponsor wishes to pursue foreign filings on inventions resulting from the research.

In addition, a publication includes any written material to which the public has access. For example, a single copy of a thesis which has been catalogued and placed in a library available to the public is a "publication" The amount of use is immaterial.

(b) Utility

35 U.S.C. Section 101, quoted earlier, provides that subject matter and improvements thereof must be "new and useful. to be patentable. The subject matter must have a useful purpose and operability, i.e., it must operate to perform its intended purpose. 35 U.S.C. Sect. 112 requires that the applicant describe how to use the invention:

> "The specification shall contain a written description of the invention, and of the manner and process of making and using it, in such full, clear, concise, and exact terms as to enable any person skilled in the art to which it pertains, or with which it is most nearly connected, to make and use the same..."

(C) Nonobviousness

The following provision was incorporated in the 1952 Patent Act as 35 U.S.C. Sect. 103, Conditions for patentability; non-obvious subject matter:

> "A patent may not be obtained though the invention is not identically disclosed or described as set forth in section 102 of this title, if the difference between the subject matter sought to be patented would have been obvious at the time the invention was made to a person having ordinary skill in the art to which said subject matter pertains...."

Even if the subject matter sought to be patented is not exactly shown by the prior art, and involves one or more differences over the most nearly similar thing already known, a patent may still be refused if the differences would have been obvious to a person skilled in the art at the time the invention was made. The subject matter sought to be patented must be sufficiently different from what has been used or described before so that it may be said to be non-obvious over the prior art. Small advances that would be obvious to a person having ordinary skill in the art are not considered inventions capable of being patented. For example, the substitution of one material for another, or changes in size are not ordinarily patentable.

Other Conditions

(a) Abandonment

35 U.S.C. Sect. 102(c) declares that a person is not entitled to a patent if he has abandoned his invention, but leaves the question of what constitutes abandonment to the courts. Although it is beyond the scope of this presentation, it might be noted that there is a distinction between abandoning a patent application and abandoning the invention it discloses.

(b) Prior foreign filing

35 U.S.C. Sect. 102(d) precludes from patent protection in the United States an invention on which the same applicant filed a foreign patent application more than twelve months prior to the United States filing date, and which matured into a patent before an application was filed in the United States. In other words, where the U.S. application is filed late (more than year after the foreign filing), a U.S. patent can be obtained only if a foreign patent does not issue in the meantime.

However, an invention which was the subject of a foreign filing within twelve months of the United States filing date is not only entitled to patent protection but can receive the benefit of the earlier foreign filing date.

(c) Previously filed patent application

35 U.S.C. Sect. 102 (e) provides that a patent cannot be obtained if the invention was described in a patent granted as the result of an application which was filed before the applicant made his invention. In other words, the specifications of United States patents become prior art as of their filing date, even though what they disclosed was not then actually available to the public. The rationale is that if the applicant's invention is fully described in an earlier application that subsequently results in a patent, that is prima facie evidence that the later applicant is not the first inventor. Were this not the case, any administrative delays in the Patent Office which, in turn, delayed the issuance of the patent would adversely affect the first applicant's rights.

(d) Non-inventorship

35 U.S.C. Sect. 102(f) states a person shall not be entitled to a patent if he did not himself invent the subject matter sought to be patented. It is primarily applicable where the appplicant has derived the invention from another.

(e) Prior invention

35 U.S.C. Sect. 102(g) negates novelty where the same invention was made earlier by another inventive entity in the U.S. and such earlier inventive entity is deemed not to have abandoned, suppressed or concealed the invention. Section 102(g) is the basis for interference proceedings to determine the priority of inventions and may be the basis for a defense in a suit for patent infringement.

5. PATENT APPLICATIONS AND PROSECUTION

Who may apply for a patent

According to the statute, only the inventor may apply for a patent, with certain exceptions. If a person who is not the inventor should apply, any patent obtained would be void. The person applying in such a case who falsely states that he is the inventor would also be subject to criminal penalties. If the inventor is dead, the application may be made by his legal representatives, that is, the administrator or executor of his estate. If an inventor refuses to apply for a patent or cannot be found, a joint inventor or a person having a proprietary interest in the invention may apply on behalf of the missing inventor.

If two or more persons make an invention jointly, they apply for a patent as joint inventors. A person who makes only a financial contribution is not a joint inventor and cannot be joined in the application as an inventor; to be an inventor, a person must contribute to the conception of the invention. It is possible to correct an innocent mistake in omitting a joint inventor or in erroneously joining a person as an inventor.

Preliminary Search

Since a patent is not always granted when an application is filed for an invention, many inventors or institutions to which an invention is assigned conduct a so-called preliminary search through the prior United States patents to discover if the particular device or one similar to it has been shown in some prior patent. This preliminary patent search is usually conducted by a patent searcher before a patent application is filed.

The search may be conducted in the Search Room of the Patent and Trademarks Office, and to some extent in public libraries which have data links to the Patent and Trademarks Office. This search is not always as complete as that made by the Patent and Trademark Office during the examination of an application, but only serves a preliminary purpose as the name indicates. The Patent and Trademark Office examiner may, and often does, reject claims in an application on the basis of prior patents or publications not found in the preliminary search.

The Application

The application for a patent is made to the Commissioner of Patents and Trademarks and includes:

1. A written document in the English language which comprises a specification (description), claims, and an oath or declaration;
2. A drawing in those cases in which a drawing is possible;
3. The filing fee

As noted earlier, the specification must include a written description of the invention and of the manner and process of making and using it, and is required to be in such clear, concise, and exact terms as to enable any person skilled in the art to which the invention pertains, or with which it is most nearly connected, to make and use the same.

The specification must describe completely a specific embodiment of the process, machine, manufacture, composition of matter or improvement invented, and must set forth the best mode contemplated by the inventor of carrying out his invention.

The application must conclude with one or more claims, which are brief but precise definitions of the subject matter of the invention, eliminating unnecessary details and reciting all essential features necessary to distinguish the invention from what is old. The claims are the operative part of the patent. Novelty and patentability are judged by the claims, and, when a patent is granted, questions of infringement are judged by the courts on the basis of the infringement of the claims.

The inventor must make an oath or declaration of his or her belief to be the original and first inventor, as well as other allegations required by the Patent and Trademark Office rules.

One portion of the oath requires acknowledgment of the inventor's duty to disclose informtion which is material to the examination of the application in accordance with Title 37, Code of Federal Regulations, Section 1.56(a), which imposes a duty of candor and good faith toward the Patent and Trademark Office on the part of the inventor and others substantively involved in the preparation or prosecution of the application. An application will be stricken from the files under certain circumstances, including fraud on the Patent Office and any violation of the duty of disclosure through bad faith or gross negligence.

The basic fee for filing an appplication for an original patent is $300, but if the invention is owned by an educational institution and has not been licensed to a large business concern, the fee is $150. There are other fees which must be paid, including fees for excess claims, recording assignments, patent issue and patent maintenance.

Prosecution

The prosecution of a patent application usually runs from a year and a half to three years, but may run for several additional years if it involves certain appeals or the resolution of an interference. In most case, prosecution includes the following steps:

(a) Examination. Applications filed in the Patent and Trademark Office, if complete, are assigned for examination to the group of examiners responsible for the class of inventions involved.

The examiner to whom the application is assigned studies it for compliance with legal requirements, and searches the prior art contained in

prior United States and foreign patents, and such prior literature as is available, to determine if the invention is new. The examiner reaches a decision as to compliance with the statutes and rules, novelty and patentability of the invention, and other matters.

(b) Office Action. The applicant is notified in writing of the examiner's decision by an "Office action" mailed to his attorney or agent. The reasons for any adverse Office action, objection or requirement are stated in the action plus information or references which may help the applicant judge the propriety of continuing the prosecution of his application.

If the invention is not considered patentable, or patentable as claimed, the claims (or those considered unpatentable) will be rejected. It is not uncommon for some or all of the claims to be rejected on the first action by the examiner. Relatively few applicatons are allowed as filed.

(c) Applicant's Response

If the Office action is adverse in any respect and the applicant wishes to persist in applying for a patent, he must reply within the time allowed, and may request reexamination or reconsideration, with or without amendment of the application. The request must be in writing and distinctly and specifically point out the supposed errors in the examiner's action. It must also respond to every ground of objection and rejection in the prior Office action.

After response by the applicant, the application will be reexamined and reconsidered, and the applicant will be notified if claims are rejected, or objections or requirements made, in the same manner as the first examination. The second Office action will usually be made final.

(d) Final Rejection or Allowance. On the second, as noted above, or on any subsequent examination or consideration, the rejection or other action may be made final. In responding to a final rejection or action, the applicant must cancel each claim which is rejected, or appeal the rejection. If any claim is allowed, the applicant must comply with any requirement or objection as to form.

Interviews with examiners may be arranged, but an interview does not remove the necessity for responding to office actions within the required time, and the action of the Patent Office is based solely on the written record.

As a result of the examination by the Patent and Trademark Office, patents are granted for roughly two out of every three patent applications filed.

(e) Abandonment or Final Issue. The response of an applicant to an action by the Patent Office must be made within a prescribed time limit.The maximum period being set at 6 months by the statute, which also provides, however, that the Commissioner may shorten the time for reply to not less than 30 days. The normal period for response to an office action is 3 months. If no reply is received within the time period, the application

is considered abandoned and no longer pending, although there are procedures for petitioning for a revival.

(f) Appeals. If the examiner persists in his rejection of any of the claims in an application, or if the rejection has been made final, the applicant may appeal to the Board of Appeals in the Patent and Trademark Office. The applicant must file a brief and is entitled to an oral hearing, if desired. (As an alternative to appeal, in situations where an applicant desires consideration of different claims or further evidence, a new continuation application is often filed.) If the decision of the Board of Appeals is still adverse to the applicant, other avenues of appeal to the courts are available.

(g) Interferences. Occasionally two or more applications are filed by different inventors claiming substantially the same patentable invention, and a proceeding known as an "interference" is instituted by the Patent and Trademark Office to determine who is the first inventor and therefore entitled to the patent. About 1% of the applications filed become involved in an interference proceeding. Interference proceedings may also be instituted between an application and a patent already issued within the preceding twelve months.

Each party to such a proceeding must submit evidence concerning when the invention was made. If no evidence is submitted, a party is restricted to the date his application was filed as his earliest date. The determination as to priority is made by a three examiners on the Board of Patent Interferences on the basis of the evidence submitted. The losing party may appeal to the Court of Customs and Patent Appeals or file a civil action against the winning party in the appropriate United States District Court.

The terms "conception" and "reduction to practice" are encountered in connection with priority questions since the inventor who proves to be the first to conceive the invention and the first to reduce it to practice will be held to be the prior inventor. However, there are many complicated circumstances where the rule cannot be stated this simply and the nuances of "conception" and "reduction to practice" are many. However, due to the importance of these terms and the fact that the rights acquired by research sponsors are also determined on the basis of conception and/or reduction to practice, a brief discussion of these follows in the next part.

(h) Allowance and Issue of Patent. If, on examination of the application, or at a later stage during the re-examination or reconsideration of the application, the application is found to be allowable, a notice of allowance will be sent to the applicant or his attorney, and a fee for issuing the patent is due within 3 months from the date of the notice. The basic issue fee for each original or reissue patent, except in design cases, is generally $250 for educational institution patents.

6. PRIORITY: CONCEPTION AND REDUCTION TO PRACTICE

Introduction

35 U.S.C. Sect. 102(g) provides that:

> "A person shall be entitled to a patent unless: before the appplicant's invention thereof the invention was made in this country by another who had not abandoned, suppressed, or concealed it. In determining priority of invention there shall be considered not only the respective dates of conception and reduction to practice of the invention, but also the reasonable diligence of one who was first to conceive and last to reduce to practice, from a time prior to conception by the other."

Thus, the United States settles the question of priority on the basis of who is "first to invent." Nearly every other country (except Canada and the Philippines) resolves the conflict solely on the basis for who is "first to file" the application disclosing the invention. For accuracy, however, it should be noted that even in this country, one's date of invention is presumed to be one's application filing date. The presumption is rebuttable, however, whereas in "first to file" countries it is not.

For the purpose of determining what constitutes the making of an invention, the inventive process is broken down into two steps: (1) conception, the mental part, and (2) reduction to practice, the physical part. Under general patent law, an invention is not completed until both the conception and reduction to practice have occurred, whether separately or simultaneously.

One should remember, however, that under Federal research contracts and applicable regulations, the Federal government defines the making of an invention as the conception or reduction to practice, and acquires Government rights on the basis of either. This contractual definition should not be confused with the patent law under discussion here, and the consequence of this Federal policy will be discussed in a separate part of this series entitled "Patent Rights under Government Contracts."

Conception

"Conception" has been defined by one court as follows:

> "The conception of the invention consists in the complete performance of the mental part of the inventive act. All that remains to be accomplished..., belongs to the department of construction, not invention. It is therefore the formation, in the mind of the inventor, of a definite and permanent idea of the complete and operative invention, as it is thereafter to be applied in practice, that constitutes an available conception, within the meaning of the patent law. This definition consists of two elements. First,

conception is a "mental" act. Second, this mental act must embody the invention that is actually reduced to practice. Or, to state it differently, the invention that is actually reduced to practice must have been anticipated by the alleged mental act for that act to be deemed the conception of the invention."

Another court has defined "conception" in the following terms:

"The formation in the mind of the inventor of a definite idea of a complete and operative invention as it is thereafter to be reduced to practice...The date of conception is the date when the invention is crystallized in all of its essential attributes and becomes so clearly defined in the mind of the inventor as to be capable of being converted to reality and reduced to practice by the inventor or by one skilled in the art."

The conception is, furthermore, of legal significance only if it is disclosed, but the mere idea or appreciation of what the inventor wishes to accomplish is not legally sufficient. With conception, the corroboration goes to the inventor's formation of the idea. If the invention is recorded in a readily identifiable form, it can be corroborated by a witness who is completely ignorant of the technology. Where there is no record of conception, however, and verbal testimony is offered, the witness must have a fairly sophisticated understanding of the technology to establish that the conception was in the same form.

The second element, that the mental act must be embodied in a physical form, presents certain problems. The ultimate expression of an idea tends to differ in some degree from the original idea itself. The inquiry therefore is whether the embodiment is a mere refinement of the mental act, or one of a different concept brought about by a more detailed study of the initial idea.

The courts have attempted to refine further the rule enunciated in one classic case that conception is shown when "the inventor or others skilled in the art can reduce the conception to practice without any further excercise of inventive skill." In restating the above rule, one case expanded the requirment into "without any further research or exercise of the inventive skill."

Emphasizing the concept of "research", the courts have tended to distinguish the inventor and persons of <u>like</u> skill in the art from those of ordinary skill in the art. If the inventor or others with his qualifications stayed with the idea, any later development is considered to be research. If the idea was "turned over" to one of ordinary skill who then altered it or added some feature to its physical embodiment, that development was considered something less than research. It suggests the view that if the inventor, or one of comparable skill, stayed with the idea, it was not complete, but if the inventor was willing to turn it over to a mechanic, the inventor at least believed it was complete.

Reduction to practice

In the eyes of the law, an invention is not complete and does not exist until it has been reduced to practice. Actual reduction to practice contemplates actual and complete use of the invention for its intended purpose. It occurs when an invention has been (1) embodied in some physical form which is (2) used to demonstrate its workability.

Physical embodiment involves the actual construction of an article of manufacture, preparation of a composition of matter, etc. that demonstrates in tangible form every element of the invention. Every particular aspect of the invention as claimed must be found in the physical embodiment, although it is still the claim, and not the physical embodiment, that defines the invention. Reduction to practice does not occur until there is a recognition and appreciation that the invention was in fact made.

Demonstrating workability requires that the physical embodiment be tested to determine whether it performs as contemplated, and it must be reasonably certain that the invention will perform its intended function in actual use. Workability, and hence reduction to practice, is established when it is shown that the invention is able to perform its intended purpose beyond a probability of failure in order to give assurance that the device will operate under normal working conditions for a reasonable length of time. The nature of testing required to establish actual reduction to practice depends upon the particular facts of each case.

Tests have been held to establish a reduction to practice when they show actual performance of the intended function with a quality, extent and character of operation sufficient to indicate that the invention has utility in the environment in which it is to be used. Testing is generally deemed sufficient if the paramaters observed in the testing bear an established relationship to performance in actual use and if the tests are sufficiently comprehensive to assure one reasonably skilled in the art that the intended functions either were being performed or would be performed in actual use. The invention need not pass the test with flying colors. A single successful use of the invention is sufficient to establish its actual reduction to practice.

Reduction to practice is not equivalent to commercialization, and it is not necessary that the invention be capable of commercial exploitation without further refinement.

Constructive reduction to practice

A reduction to practice may be either actual or constructive. An actual reduction to practice involves the physical construction or carrying out of the invention. The actual reduction to practice of a process occurs when the constituent steps have been performed. In the case of a product producing process, reduction requires the establishment of a utility for the products produced. The actual reduction of a composition of matter occurs when the composition has been produced and its usefulness demonstrated by actual testing, unless its utility is self evident.

A constructive reduction to practice, however, is a reduction to practice deemed to be such solely in the contemplation of the law without any physical construction or carrying out of the invention. A constructive reduction to practice involves only the formal filing in the Patent and Trademark Office of a patent application disclosing the invention.

Constructive reduction to practice is, in effect, a fiction which has arisen to meet the requirement that in order to file a patent application in the Patent and Trademark Office there must be a completed invention. The fiction assumes that the invention was previously conceived and the filing of the patent application completes the inventive act. This practice, of course, results in many paper patents which pertain to inventions that have never been built or tried. The same standards of proof of utility are applicable to a constructive reduction to practice as are applicable to an actual reduction.

Diligence

As noted earlier, 35 U.S.C. 102(g) states in part that "In determining priority of invention there shall be considered not only the respective dates of conception but also the reasonable diligence of one who was first to conceive and last to reduce to practice..."

Diligence is only significant where one party was the first to conceive but the last to reduce to practice. The party who was first to conceive need not have commenced due diligence at the time of his own conception. Diligence must, however, commence prior to his rival's conception and be continuously maintained until his own reduction to practice. Consequently, one who was the first to conceive cannot recapture priority by spurting into renewed activity upon learning that another has entered the field. At that point he can only regain priority by becoming the first to reduce to practice. Commercialization is not a requirement for diligence, conception or reduction to practice.

Diligence has the same significance whether there is reliance on an actual or a constructive reduction to practice. (In the latter case, there must have been diligence in preparing and filing the patent applicaton.) However, an unreasonable delay in filing after an actual reduction to practice, which in a sense is a lack of diligence, is more commonly characterized as suppression, as discussed below.

Diligence, as used in 35 USC Sect. 102(g) involves the continued application of the inventor or his representative to the task of reducing the conceived invention to practice. The law requires only ordinary or reasonable diligence, not uninterrupted effort or the concentration of all the applicant's energies. A party charged with showing diligence must account for the entire period during which diligence is required. Reasonable diligence may be shown by affirmative acts toward reduction to practice or by reasons for failing to act. Reasonable diligence by an inventor must be corroborated. Mereley asserting diligence does not factually establish it. A showing of diligence must include a showing of what acts occurred as well as the specific dates on which they occurred.

A party who was the first to reduce to practice, but thereafter suppressed or concealed his invention, forfeits the right to use the date of that reduction to practice to establish priority over a subsequent inventor. Such right cannot be resurrected by thereafter taking steps to file a patent application, even if such steps are taken before an opponent enters the field. However, even though an inventor has suppressed or concealed his invention, he will be entitled to a patent where his filing date is earlier than his rival's date of actual reduction to practice.

7. REMEDIES

Infringement

35 U.S.C. 271(a) provides that the making, using or selling of a patented invention without authority within the United States during the patent term infringes the patent. In addition, 35 USC 271 (c), provides that the sale of a component of a patented machine, or of a composition, material, or apparatus for use in practicing a patented process, while knowing the same to be made especially for use in an infringement of the patent (and not a staple article or commodity of commerce) is contributory infringement.

If a patent is infringed, the patentee may sue for relief in the appropriate Federal District court, and ask the court for an injunction to prevent the continuation of the infringement and for damages because of the infringement. The defendant may question the validity of the patent, which is then decided by the court. The defendant may also aver that what he is doing does not constitute infringement, and this question will be determined primarily on the basis of whether what the defendant is doing falls within the language of any of the patent claims.

In all suits for patent infringment, the patent is presumed valid and the burden of establishing invalidity is on the challenging parties (35 USC 282). Remedies for infingement by a private party include injunctive relief (35 USC 283) and damages adequate to compensate for the infringment, but in no event less than a reasonable royalty for the use made of the invention by the infringer, together with interest and costs as fixed by the court (35 USC 284). Suits for infringement of patents follow the rules of procedure of the Federal courts.

The United States Government may use any patented invention without permission of the patentee and no injunction can issue against such use. If the Government use infringes the patent, however, the patentee has a remedy for damages in the Court of Claims of the United States (28 USC 1498(a)).

If the patentee notifies anyone that they are infringing his patent or threatens suit, the one charged with infringement may himself start a Declaratory Judgment action in a Federal court and get a judgment in the matter.

Interferences

The policy of awarding a patent only to the first inventor is the basis for interference proceedings. An interference arises when two or more inventors claim the same invention and seek to determine which competing claimant made the invention first and is entitled to patent rights in it.

A patent owner who suspects that another patent interferes with his patent may seek to have his patent declared "prior in time." An action to determine priroty commences when the Patent Office, in considering the application of the potential infringer, believes that conflicting interests exist and gives notice to the parties (35 USC 135). In an action instituted under that section, the question of priority is determined by the Board of Patent Interferences. A party dissatisfied with the decision of the Board may appeal to the Court of Appeals for the Federal Circuit, although the party that prevailed before the Board may elect a different procedure which provides for review by civil action in the district court, with an appeal to the federal circuit. The remedy in an interference action is a declaration of priority.

Interference actions involving the government most often result when the government requests rights in a patent application filed by a party who allegedly reduced his invention to practice with federal funds. Such interference actions generally are authorized by agency enabling statutes. Those statutes provide that the Commissioner shall forward certain patent applications to agency administrators and shall issue patents in the name of the administrator upon request, unless the applicant petitions for a hearing before the Board of Interferences.

8. TREATIES AND FOREIGN PATENTS

Since the rights granted by a United States patent extend only throughout the territory of the United States, an inventor who wishes patent protection in foreign countries must apply for a patent in those countries.

Each country has its own requirements on patenting and the laws of other countries differ in various respects from the patent law of the United States and even from each other. In most foreign countries, publication of the invention before the date of the application will bar the right to a patent. Most foreign countries require that the patented invention must be manufactured in that country after a certain period, usually 3 years. If not, the patent might be void in some countries, and in others might be subject to the grant of compulsory licenses to other qualified licensees.

A treaty relating to patents, known as the Paris Convention for the protection of Industrial Property, is adhered to by 79 countries, including the United States. It provides that each country guarantees to the citizens of the other countries the same rights in patent and trademark matters that it gives to its own citizens. The treaty also provides for the right of priority in the case of patents, trademarks and industrial designs. This right means that, on the basis of a regular first application filed in one of the member companies, the applicant may, within a certain period of time, apply for protection in all the other member countries. These later applications will then be regarded as if they had been filed on the same day as the first application. The period of time within which the subsequent application may be filed in other countries is 12 months in the case of applications for patents and 6 months in the case of industrial designs and trademarks.

Another treaty, known as the Patent Cooperation Treaty, prersently signed by 35 countries, including the United States, became effective on January 24, 1978. The treaty facilitates the filing of applications for patents on the same invention in member countries by providing, among other things, for centralized filing procedures and a standardized application format.

Under United States law it is often necessary, in the case of inventions made in the United States, to obtain a license from the Commissioner of Patents and Trademarks before applying for a patent in a foreign country. Such a license is required if the foreign application is to be filed before an application is filed in the United States or before the expiration of 6 months from the filing of an application in the United States. After 6 months from the United States filing, a license is not required unless the invention has been ordered to be kept secret.

9. BIBLIOGRAPHY

Patent law and practice is a complex topic, most of it beyond the scope of this introductory material. However, there are a great many materials available to those who wish to pursue the subject. The following provide a useful starting point:

1. General Information Concerning Patents, a publication of the Patent and Trademark Office of the U.S. Department of Commerce. This 44-page pamphlet is described as "A brief introduction to patent matters including definitions of patents, copyrights, and trademarks; the workings of the Patent and Trademark Office; and what applicants must do." The table of contents of this publication is reproduced as Attachment 1 to this material. It may be ordered from the Government Printing Office. The current price is $3.

2. Patent Law Fundamentals (Second Edition) by Peter D. Rosenberg, New York: Clark Boardman Company LTD, 1981. This is a two-volume reference work, the price of which includes a subscription to continuing releases which keep the material up-to-date. The title pages and a summary of the contents are reproduced as Attachment 2 to this material. The price is 1983 was approximately $125.

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

PATENT RIGHTS UNDER GOVERNMENT CONTRACTS

Workshop Materials - NCURA Intellectual Property Series - 1984

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PATENT RIGHTS UNDER GOVERNMENT CONTRACTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

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Introduction to

PATENT RIGHTS UNDER GOVERNMENT CONTRACTS

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1. GOVERNMENT RIGHTS IN PATENTS

Unit 1 in this series, "Patents and Patent Rights", discusses the legislative authority granted to Congress under the Constitution for the enactment of the Patent Laws contained in Title 35 of the United States Code, and the Copyright Laws, Title 17 of the Code.

The fact that the governnment may grant a patent under the authority of the patent laws, however, does not in and of itself give the government a right to use it. To obtain this right, the government must acquire it in some manner, as, for example, by contract, by purchase, as a condition of employment for its own employees, or by special procedures in the interest of public safety, etc.

In this paper we are primarily interested in the extent to which the United States may acquire rights in inventions made in the performance of Federally funded research grants and contracts. This may depend on such factors as the manner in which the Federal funds contributed to the making of the invention, the nature of that invention, the particular agency from which the funds were received, whether an independent contractor is a nonprofit organization or small business or other entity, etc.

As university administrators, however, our interest tends to focus more narrowly on rights acquired by the Government in inventions resulting from federally funded research grants and contracts with small businesses and non-profit organizations. This is determined in accordance with Public Law 96-517, OMB Circular A-124, the implementing Federal Acquisition Regulations (FAR Chapter 27), and agency supplements.

Public Law 96-517 creates a dichotomy in federal policy regarding the disposition of patent rights inventions arising from federally supported research and development efforts, (i.e., in "subject inventions"), between small business firms and non-profit organizations on the one hand, and private enterprises not qualifying either as a small business firm or non-profit on the other. It establishes a uniform policy for all federal agencies, except the TVA, thereby replacing some 26 different policies.

PL 96-517 and the implementing regulations are, therefore, of major importance to universities in the determination of patent rights and ownership under federal research grants and contracts, and are the focus of this paper.

2. THE PATENT AND TRADEMARK AMENDMENTS OF 1980

(Public Law 96-517)

On December 12, 1980, the Patent and Trademark Law Amendments Act (P.L. 96-517) was signed into law. This Act seeks to reform a number of areas of the United States patent law which have been troublesome for many years. Of major importance to university research administrators, however, the Act adds a completely new chapter to Title 35 of the U.S. Code. Chapter 38, entitled "Patent Rights in Inventions Made with Federal Assistance," and commonly referred to as the Uniform Patent Legislation, allows non-profit organizations and small business firms to elect to retain, with limited exceptions, title to inventions made in the course of government sponsored research.

Chapter 38 declares that it is the policy and objective of Congress to use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of small business firms in federally supported research and development efforts; to promote collaboration between commercial concerns and nonprofit organizations, including universities; to ensure that inventions made by nonprofit organizations and small business firms are used in a manner to promote free competition and enterprise; to promote the commercialization and public availability of inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area.

These policies and objectives are in marked contrast to the position urged for many years in Congressional hearings by those who viewed the patent system with suspicion and who felt that the Federal government should acquire title to all inventions resulting from federally funded research and that universities and other contractors should not be granted title and the right to license government funded inventions.

In effect, the policy stated in Chapter 38 is more likely to effectuate the intent of Article 1, Section 8, of the Constitution, which provides that the Congress shall haved power "To promote the progress of science and useful arts by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries."

3. OMB CIRCULAR A-124

Public Law 96-517 was initially implemented by OMB Bulletin 81-22, which university representatives felt did not accurately reflect the intent of the law. A period of further discussion and negotiation followed, and OMB Circular A-124, which was effective March 1, 1982, superseded OMB Bulletin 81-22.

The stated purpose of OMB Circular A-124 is to provide "the policies, procedures and guidelines with respect to inventions made by small business firms and nonprofit organizations, including universities, under funding agreements with Federal agencies where a purpose is to perform experimental, development, or research work."

It is important for university representatives to be familiar with OMB Circular A-124 to ensure that the implementing FAR patent regulations and agency supplements are consistent with that Circular from a university standpoint. However, on a day-to-day basis, university administrators will be working with the policies and procedures set forth in FAR Chapter 27 and the standard patent rights clause in FAR 52.227-11, as these relate to universities, since they have been picked up almost verbatim, or with non-substantive modifications, in the various Federal agency supplements. For this reason, OMB Circular A-124 is not included in the appendices.

However, in order to avoid confusion, the following section explains how the standard patent rights clause first issued as Attachment A to Circular A-124 became the standard patent clause set forth at FAR 52.227-11.

Standard Patent Rights Clause

OMB Circular A-124 stipulates that each "funding agreement" (as defined in the Circular) must contain the standard patent rights clause which is set forth as Attachment A to that Circular. As issued in March 1982 that clause was intended to be used only in contracts with small businesses and domestic nonprofit organizations. However, the Presidential Memorandum of February 1983 stipulated that all Federal agencies would extend the principles of P.L. 96-517 to Federal R&D contracts with large business organizations (unless precluded by statute, as is the case with DOD, DOE and NASA). Consequently, in 1984, the standard clause was revised in minor details so that it could be used in all such contracts. It was also improved in a manner favorable to universities. That revised clause is now set forth in FAR 52.227-11, "Patent Rights - Retention by the Contractor (Short Form)," and is the clause contained in Appendix 2 to this paper.

4. COMMINGLING

Those individuals negotiating patent clauses in contracts with industrial sponsors must understand the issue of "commingling."

Part 6.a. of OMB Circular A-124 defines "funding agreement" as follows:

> "a. The term 'funding agreement' means any contract, grant or cooperative agreement entered into between any Federal agency, other than the Tennessee Valley Authority, and any contractor for the performance of experimental, developmental, or research work funded in whole or in part by the Federal government." (Underlining added)

Thus, the partial support of research by the Federal government may result in the "commingling" of Federal funds and private funds, with the government acquiring rights in the resulting inventions, which thereby become subject to the provisions of OMB Circular A-124. It should be noted that "commingling," as used in this context, is not limited to the mixing of Federal and non-Federal funds in the same account, since the partial Federal support may be provided in separate research accounts, or may have been provided at an earlier time. It is important, therefore, to know under what circumstances the government will be considered as having provided partial support. The following guidance is taken from the transmittal letter to OMB Circular A-124 (prefaced by "OMB"), from inputs provided by OMB to the Director of NIH (prefaced by "NIH"), and from a GAO report requested by Rep. Albert Gore (prefaced by "GAO").

1. "De Minimus"

OMB: "There were several comments that some 'de minimus' standard be established to define the threshold contribution of government funding to the making of a jointly funded invention below which the Circular regulation should not apply. These recommendations were rejected as being inconsistent with the Act, which does not define subject invention in terms of the size of the government financial contribution in making the invention.

2. Direct vs. Indirect Costs

NIH: "Many apparent problems can be resolved by the application of general cost accounting and auditing principles. In a project funded by commingled funds, the Federal Government's support is either through direct costs (i.e., salaries of the principal investigator and staff, laboratory supplies, equipment) or indirect costs (i.e., reimbursement of general university overhead, construction costs). As

a general rule, when a project is supported in whole or in part through direct costs, the patent regulations apply and the Government retains rights. When the Government supplies indirect costs only, as in previous Government funding for equipment or facilities, the patent regulations don't apply, unless there is a quid pro quo stipulated in the funding agreement."

Note: Those who have read the GAO report prepared at the request of Rep. Albert Gore concerning the contract between Massachusetts General Hospital and the Hoechst Company of West Germany, will recall the statement below (underlining supplied), which apparently contradicts the NIH formulation. There is reason to believe, however, that the GAO report overstated the case with respect to indirect costs, and this has been conceded by a GAO representative familiar with the report:

GAO: "Care must be taken, however, that no Federal funds directly or indirectly support the research leading to an invention if MGH is to claim that the terms of a (NIH) funding agreement do not apply. This may very well mean that MGH must account separately for all expenses leading to an invention including the cost of the research itself as well as indirect or overhead costs, to be able to show that the expenses were paid with funds provided by Hoechst. In the event MGH is unable to prove that NIH funding was in no way involved, the terms of the Act, as embodied in a (NIH) funding agreement, would apply."

3. Supplemental projects

OMB: "Notwithstanding the right of research organizations to accept supplemental funding from other sources for the purpose of expediting or more comprehensively accomplishing the research objectives of the government sponsored project, it is clear that the Act would remain applicable to any invention 'conceived or first actually reduced to practice in the performance' of the project. Separate accounting for the two funds used to support the project in this case is not the determining factor."

4. Simultaneous, closely related projects

OMB: "To the extent that a non-government sponsor establishes a project which, although closely related, falls outside the planned and committed activities of a government funded project and does not diminish or distract from the performance of such activities, inventions made in performance of the non-government sponsored project would not be subject to the conditions of the Act. An example of such related but separate projects would be to expand scientific understanding in a field, with a closely related industry sponsored project having as its objective the application of such new knowledge to develop usable new technology. The time relationship in conducting the two projects and the use of new fundamental knowledge from one in the performance of the other are not important determinants since most inventions rest on a knowledge base built up by numerous independent research efforts extending over many years. Should such an invention

be claimed by the performing organization to be the product of non-government sponsored research and be challenged by the sponsoring agency as being reportable to the government as a 'subject invention,' the challenge is appealable as described in Part 14.c."

Note: The legal significance of the proviso that the private research "does not diminish or distract" from the performance of the government funded project is unclear, but in other respects the position appears reasonable.

NIH: "If a single individual spends one-half time on a project supported with Government funds and one-half time on a privately supported project, the Government obtains patent rights only if the privately supported project is directly dependent on ideas or materials generated in the publicly supported project."

Note: It would seem more useful if this description were revised to refer to the "conception of the invention" rather than the "project" being directly dependent.

5. Sequential research

NIH: "Similarly, if a scientist spends ten years on a publicly supported project and then ten years on a privately supported project, the Government obtains no patent rights to the invention developed under private support unless it is clear that the idea was conceived with public funds".

6. Use of equipment

OMB: "An invention which is made outside of the research activities of a government funded project but which in its making otherwise benefits from such project without adding to its cost, is not viewed as a "subject invention" since is cannot be shown to have been "conceived or first actually reduced to practice" in performance of the project. An obvious example of this is a situation where an instrument purchased with government funds is later used, without interference with or cost to the government funded project in making an invention all expenses of which involve only non-government funds.

7. Use of buildings

NIH: "In the situation where privately supported work is done in a building previously constructed with Government funds, the Government obtains no patent rights in inventions developed through those private funds. "

Where Federal Rights Apply

In those situations in which the Federal government acquires rights in an invention by having funded the research "in whole or in part," and the licensing of the invention is, therefore, subject to OMB Circular A-124 and the implementing Federal Acquisition Regulations, the following constraints apply. They are set forth in the paragraphs cited below in the patent rights clause at FAR 52.227-11. That clause is reproduced in Appendix 2 of this paper as published in the Federal Register. The page numbers after "Ref:" identify the page of the Register and the column (Left, Middle, Right) in which the paragraph may be found.

Paragraph in FAR 52.227-11	Ref: Federal Register page in Appendix 2

(b) Allocation of principal rights. Provides the Federal government with a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject inventions throughout the world. Ref: 12989-M

(i) Preference for United States industry. Exclusive licensees must agree that products embodying the subject invention will be manufactured substantially in the United States. Ref: 12990-R

(j) March-in rights. Government may require granting of a license to responsible applicant(s) under certain specified circumstances and subject to procedural safeguards. Ref: 12990-R

(k) Special provisions for contracts with nonprofit organizations.

(1) Rights may not be assigned without Federal agency approval except to patent management organizations which meet the criteria set forth therein. Ref: 12991-L

(2) Contractor may not grant exclusive licenses to persons other than small business firms for a period in excess of those set forth therein (5 years from first commercial sale or use, 8 years from date of the exclusive license, not counting time for pre-market regulatory clearance, with fields of use differentiated). Ref: 12991-L

5. FEDERAL ACQUISITION REGULATIONS (FAR) - PART 27

In order to understand the current status of the Federal Acquisition Regulations, Part 27, with respect to patents, it may be useful to provide the following background.

1983 - Proposed FAR Part 27

In mid-1983, a proposed Part 27 of the Federal Acquisition Regulations was issued. After its Committee on Patents, Copyrights and Rights in Data had reviewed the proposed Part 27, the Council on Governmental Relations (COGR) responded with two main points:

1. The proposed regulations were materially inconsistent with P.L.96-517 and OMB Circular A-124; and

2. The proposed regulations attempted to set new federal policy on rights in data by (a) restricting the use and release of research data by university scientists and (b) shifting to the government title to computer programs arising under contracts.

March 20, 1984 - Revisions to the A-124 Standard Patent Rights Clause

On March 20, 1984, in the Federal Register at page 10393, the Office of Federal Procurement Policy, part of OMB, published a revision to OMB Circular A-124 consisting of minor modifications to the standard patent rights clause set forth in Attachment A of that circular. The purpose of the modifications was to implement the President's memorandum of February 1983, which directed that all Federal agencies, to the extent permitted by law, extend the principles of Public Law 96-517 to large businesses, in addition to small business firms and non-profit organizations. As modified, the clause can be used for all classes of research contractors.

It is intended that agencies use the revised clause in all grants, contracts, and cooperative agreements awarded after April 1, 1984 to small business and nonprofit organizations for the performance of research and development work. It is also to be used in such awards to big businesses to the extent permitted by law (which primarily excludes DOD, DOE and NASA).

The only substantive change, viewed by universities as favorable, provides that a Federal agency wishing to obtain title to an invention must request title within 60 days after learning of the contractor's failure to report the invention or failure to elect title within the specified times. This precludes a continuing cloud on the contractor's title to an invention when the agency could, but does not intend to request title.

This revised clause is now contained in FAR 52.227-11, "Patent Rights - Retention by the Contractor (Short Form)," which is reproduced in Appendix 2 of this paper.

March 30, 1984 - Publication of FAR - Part 27

When the FAR's were first published, Part 27, dealing with patents, data and copyrights, was omitted due to a number of unresolved policy issues, many of which related to data and copyrights.

On March 30, 1984, Federal Acquisition Circular 84-1 was published in the Federal Register, beginning on page 12794. In addition to various amendments to the FAR's published earlier, it contained Part 27 for the first time. (Subpart 27.4, however, relating to data and copyrights, contained only a brief policy statement to guide Federal agencies in framing their own regulations until FAR 27.4 is eventually issued.)

Federal agencies have generally incorporated FAR Part 27 with respect to patents into their own regulations by reference, although some have woven new explanatory text of their own around the FAR regulations. In any event, this paper will not discuss individual agency FAR supplements relating to patents since, in one way or another, they adopt the substance of FAR Part 27.

FAR Subparts 27.1, 27.2 & 27.3 and 52.227-11

University administrators should be familiar with FAR Subparts 27.1, 27.2 and 27.3, and these are reproduced in Appendix 1, as published in the Federal Register of March 30, 1984 at pages 12974 through 12985.

FAR Subpart 27.3 deals with "Patent Rights under Government Contracts," and Section 27.303 requires that the clause at 52.227-11, "Patent Rights - Retention by the Contractor (Short Form)," be inserted in contracts for experimental, developmental, or research work where the contractor is a small business concern or non-profit organization or (except for contracts of DOD, DOE or NASA) any other type of contractor. Limited exceptions to this requirement are set forth in 27.303(d) and involve (1) contracts for the operation of a Government-owned research or production facility, (2) exceptional circumstances, or (3) foreign intelligence activities.)

The patent rights clause set forth in FAR 52.227-11 is included in Appendix 2, and was reproduced from the same Federal Register at pages 12989 through 12991.

However, Subpart 27.3, "Patent Rights under Government Contracts," intertwines the guidance for all types of contractors in a sometimes confusing manner which makes it difficult to isolate that which relates solely to universities and small businesses from that which pertains to other contractors. In addition, the standard clause in 52.227-11 is not organized in a way which parallels the material in Subpart 27.3. It is, therefore, difficult to move back and forth between the two. For these reasons, we have added to the front of Appendix 1 a summary of the sections in Subpart 27.3 and have cross-referenced them to the paragraphs in the standard clause. Similarly, we have added to the front of Appendix 2 a summary of the paragraphs in the standard clause and have cross-referenced these back to the sections in Subpart 27.3.

APPENDIX 1

FAR SUBPARTS 27.1, 27.2 & 27.3

Summary and Cross-Reference

SUBPART 27.1 GENERAL

This subpart states that Part 27 is applicable to all agencies, which may adopt alternate policies, procedures and clauses only to the extent determined necessary to meet the specific requirements of laws, executive orders, treaties, or international agreements. It also lists eight guiding principles underlying goverrnment policy on patents, rights in data, and copyrights.

SUBPART 27.2 PATENTS

This subpart prescribes policy with respect to:

a. Patent infringement liability resulting from work performed by or for the government (including authorization and consent, notification and assistance, and indemnification).

b. Royalties payable in connection with performing government contracts, and

c. Security requirements covering patent applications containing classified subject matter filed by contractors.

The policy statements set forth in this subpart also identify the implementing contract clauses set forth in FAR 52.227. These policies and implementing clauses, however, will not be discussed further since our principal focus is on patent rights under government contracts. For that reason, we will concentrate on Subpart 27.3 in the remainder of this Appendix, and on the clause in 52.227-11 in Appendix 2.

SUBPART 27.3 PATENT RIGHTS UNDER GOVERNMENT CONTRACTS

In order to simplify the use of Subpart 27.3, we have listed below the section headings and, in parentheses, the page and column (Left, Middle or Right) in which each is located in the Federal Register as reproduced in this Appendix 1. No comments are provided where the material is self-explanatory.

In order to facilitate a comparison of Subpart 27.3 with the standard clause in 52.227-11 as set forth in Appendix 2, each section listed below is also cross-referenced to the corresponding paragraph, if any, in the standard clause. For example, "Ref: 12990-R-(j)" next to a section heading means that the most closely related paragraph, if any, in the standard patent clause is paragraph (j), located on page 12990, right-hand column, of the Federal Register as reproduced in Appendix 2.

Subpart 27.3		Ref: to 52.227-11 para. (if any) in F.R. (Appendix 2)
27.300	Scope (12978-R)	
27.301	Definitions (12978-R)	Ref: 12989-L-(a)
	Same as short-form clause but different order	
27.302	Policy (12979-L)	
(a)	Introduction - Origin and objectives	
(b)	Contractor right to elect title	Ref: 12989-M-(b)
(c)	Government license	Ref: 12989-M-(b) Ref: 12991-M-Alt.I
(d)	Government right to receive title	Ref: 12989-R-(d)
(e)	Utilization reports	Ref: 12990-M-(h)
(f)	March-in rights	Ref: 12990-R-(j)
(g)	Preference for United States Industry	Ref: 12990-R-(i)
(h)	Minimum rights to contractor	Ref: 12989-R-(e)
(i)	Confidentiality of inventions	

Subpart 27.3	Ref: to 52.227-11 para. (if any) in F.R. (Appendix 2)

27.303 Contract clauses (12980-M) Ref: 12989-L

(a) (1) Clause at 52.227-11, "Patent Rights - Retention by the Contractor (Short Form)" to be inserted where the contractor is a small business concern or non-profit organization (except as may be required under (d) below)), or and other type of contractor, except for contracts of DOD, DOE or NASA.

(2) Contracting officer may modify paragraph (f) of the clause to require certain listings, notifications, and copies of documents.

(3) Contracting office may add Alt. I to permit the government to sublicense foreign governments.

(b) (1) Criteria for use of clause at 52.227-12, "Patent Rights - Retention by the Contractor (Long Form) for contractors other than small business firms or nonprofit organizations.

(c) (1) Criteria for use of clause at 52.227-13, "Patent Rights - Acquisition by the Government"

(d) (1) Contracting officer may use alternative clauses in connection with the operation of a Government-owned research or production facility, exceptional circumstances, or foreign intelligence or counter-intelligence activities.

(2) Sets forth procedures for making determinations under (d)(1).

(e) Contractor may be required to certify that it is a small business firm or a nonprofit organization. The agency may protest.

(f) Alternate clause I providing license rights to foreign governments under (a)(3) above may be modified in certain respects.

27.304 Procedures (12981-R)

27.304-1 General

(a) Greater rights determination - (Covers acquisition of rights by the contractor or employee-inventor where the Government acquires rights under the clause at 52.227-13.)

(b) Retention of rights by inventor (where contractor does not elect to retain title)

(c) Government assignment to contractor of rights in Government employees' inventions.

Subpart 27.3 — Ref: to 52.227-11 para. (if any) in F.R. (Appendix 2)

(d) Additional requirements (12982-L) - Contract modifications to require contractor to provide listings, reports, information, notices, copies of documents, confirmatory instruments, etc.

(e) Revocation or modification of contractor's minimum rights - (12982-L) - (covers written notice and appeal procedures applicable to revocation under Section 27.302(h)(2).

(f) Modification, waiver, or omission of rights of the Government or obligations of the contractor - Not applicable to universities; applies to contracts not subject to 35 U.S.C. Chapter 18.

(g) Exercise of march-in rights (12982-R) - States procedures governing the exercise of march-in rights set forth in paragraph (j) of the clause at 52.227-11. Ref: 12990-R-(j)

(h) Licenses and assignments under contracts with nonprofit organizations - Covers restrictions on assignment, and on the terms of exclusive licenses. Ref: 12991-L-(k)

27.304-2 Contracts placed by or for other government agencies.

27.304-3 Contracts for construction work or architect-engineer services.

27.304-4 Subcontracts (12983-R) Ref: 12990-M-(g)

(a) Policies and procedures of this subpart apply to all contracts at any tier. Hence, a contractor awarding a subcontract, and a subcontractor awarding a lower-tier subcontract, that has as a purpose the conduct of experimental, developmental or research work is required to determine the appropriate patent rights clause consistent with the policies and procedures of Subpart 27.3. Universities should always receive the clause at 52.227-11 unless an alternate clause is adopted in accordance with Subpart 27.3.

(b) Disputes to be resolved by agency contracting officer in consultation with counsel.

(c) "It is Government policy that contractors shall not use their ability to award subcontracts as economic leverage to acquire rights for themselves in inventions resulting from subcontracts."

Subpart 27.3

Ref: to 52.227-11 para. (if any) in F.R. (Appendix 2)

27.304-5 Appeals (12984-L)

Covers procedures by which contractors can appeal certain agency actions such as refusal to extend disclosure period, convey title, grant a waiver under 27.302(d), approve an assignment, extend an exclusive license period, etc.

27.305 Administration of patent rights clauses (12984-M)

Ref: 12989-M-(c)
Ref: 12990-L-(f)

27.305-1 Patent rights follow-up

27.305-2 Follow-up by contractor

27.305-3 Follow-up by Government

27.305-4 Conveyance of invention rights acquired by Government

27.305-5 Publication or release of invention disclosures

27.306 Licensing background patent rights to third parties (12985-R)

(a) Contracts with small business firms or nonprofits will not contain provisions allowing the Government to require the licensing to third parties of inventions owned by the contractor that are not "subject inventions" unless such provisions have been approved by, and written justification signed by the agency head.

(b) Criteria for determining whether licensing of background patents to third parties should be required.

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APPENDIX 2

FAR 52.227-11, PATENT RIGHTS - RETENTION BY THE CONTRACTOR (SHORT FORM)

Summary and Cross-References

As noted earlier, the standard patent rights clause contained in Attachment A to OMB Circular A-124 was revised in the Federal Register of March 20, 1984 to be applicable also to other than small business firms and non-profits. That clause is now FAR 52.227-11, "Patent Rights - Retention by the Contractor (Short Form)" and is reproduced in this appendix.

In order to simplify the use of this clause, we have listed below the paragraph headings and, in parentheses, the page and column (Left, Middle or Right) in which each is located in the Federal Register as reproduced in this Appendix 2. The general content of individual paragraphs is summarized in some cases to help the reader locate particular topics, but these summaries should not be relied on as a legally adequate substitutes for a close reading of the paragraphs themselves.

In order to facilitate a comparison of this clause with Subpart 27.3 in Appendix 1, each paragraph listed below is also cross-referenced to the corresponding section, if any, of Subpart 27.3. "Ref: 12979-R-302(f)" next to a paragraph heading means, for example, that the most closely related section, if any, in Subpart 27.3 is Section 27.302(f), located on page 12979, right-hand column, Federal Register, as reproduced in Appendix 1.

Standard Patent Rights Clause at FAR 52.227-11	Ref: to Subpart 27.3 Section (if any) in Fed.Reg. (Appendix 1)
(a) Definitions (12989-L)	Ref: 12978-R-301
(b) Allocation of Principal Rights (12989-M)	Ref: 12979-L-302(b) Ref: 12979-M-302(c)

The contractor may elect to take title to any subject invention, with a non-exclusive, paid-up license to the United States to practice the invention or have it practiced on the government's behalf.

(c) Invention disclosure, election of title, & filing of applications by Contractor (12989-M)	Ref: 12984-M-305

Note: The time periods referred to in each subparagraph below are critical and should be studied in detail from the clause itself.

Standard Patent Rights Clause at FAR 52.227-11

Ref: to Subpart 27.3 Section (if any) in Fed.Reg. (Appendix 1)

(c) 1. Disclosure - The contractor must disclose each subject invention to the federal agency within two months arter the inventor discloses it in writing to Contractor personnel responsible for patent matters.

Ref: to Subpart 27.3

2. Election - The contractor must elect in writing whether or not to retain title to any such invention by notifying the Federal agency within 12 months of disclosure; provided that the agency may shorten this period if the 1-year statutory patent filing period has been initiated by publication, sale or public use.

3. Filing - The contractor must file its initial patent application on an elected invention within a stated time.

(d) Conditions When The Government May Obtain Title (12989-R) Ref: 12979-M-302(d)

The contractor will convey title to the Federal Agency at its request when:

1. The contractor fails to disclose or elect within the times specified, or elects not to retain title

2. In those countries in which the contractor fails to file patent applications within the specified times, or decides not to continue prosecution or maintenance.

(e) Minimum Rights to Contractor (12989-R) Ref: 12980-L-302(h)

1. The contractor retains a nonexclusive, royalty-free license throughout the world (with limits on its transferability) in each invention to which the government obtains title, unless the contractor fails to disclose in the specified time.

2. The contractors license may be revoked under stated circumstances and (3.) with proper notice.

(f) Contractor Action to Protect the Government's Interest (12990-L) Ref: 12984-M-305 Ref: 12980-R-303(a)(2)

1. Contractor will cooperate in confirming government license rights or conveying title.

Standard Patent Rights Clause at FAR 52.227-11	Ref: to Subpart 27.3 Section (if any) in Fed.Reg. (Appendix 1)

(f) 2. Contractor will require employees, other than clerical and non-technical, by written agreement to disclose inventions and cooperate in filing and establishing government rights.

3. Contractor will notify Federal agency of decision not to prosecute or maintain patents.

(f) 4. Contractor will acknowledge Federal support and rights in the patent application and any patent issuing.

(g) Subcontracts (12990-M) Ref: 12983-R-304-4

Contractor will include this clause, suitably modified, in subcontracts, regardless of tier, for experimental, developmental or research work to be performed by a small business firm or nonprofit organization.

(h) Reporting on Utilization of Subject Inventions (12990-M) Ref: 12979-R-302(e)

Contractor will submit reports no more frequently than annually on utilization of subject inventions or on efforts at obtaining it.

(i) Preference for U.S. Industry (12990-R) Ref: 12980-L-302(g)

Precludes granting exclusive right to use or sell in the U.S. unless the grantee agrees that any products embodying the subject invention will be manufactured substantially in the United States, but with waiver by the Federal agency permitted under certain circumstances.

(j) March-in Rights (12990-R) Ref: 12979-R-302(f)
Ref: 12982-R-304-1(g)

The Federal agency, in accordance with procedures in A-124, may require the licensing of others in a field of use if it determines that such action is necessary for any of four reasons stipulated in the clause.

Standard Patent Rights Clause at FAR 52.227-11	Ref: to Subpart 27.3 Section (if any) in Fed.Reg. (Appendix 1)

(k) Special Provisions for Contracts with Non-Profit Organizations (12991-L) Ref: 12983-L-304(1)(h)

If the contractor is a non-profit organization, it agrees that:

1. Rights to the subject invention in the United States may not be assigned without approval of the Federal agency, except to a patent management organization as defined in this subpar. (k).

2. It will not grant exclusive licenses to other than small business firms for a period in excess of the earlier of five years from the first commercial sale or use of the invention, or eight years from the date of the exclusive license, excluding time before regulatory agencies necessary to obtain premarket clearance. Fields of use may be differentiated.

3. It will share royalties with the inventor.

4. The balance of royalties to the contractor after expenses incidential to the administration of subject inventions (including payments to inventors) will be utilized for the support of scientific research or education.

FAR segment	OMB control No.
SF 25-A	3090-0172
SF 25-B	3090-0172
SF 26	3090-0005
SF 33	3090-0074
SF 34	3090-0172
SF 35	3090-0172
SF 119	3090-0017
SF 129	3090-0068
SF 254	3090-0029
SF 255	3090-0029
SF 273	3090-0172
SF 274	3090-0172
SF 275	3090-0172
SF 294	3090-0052
SF 295	3090-0053
SF 1403	3090-0110
SF 1404	3090-0110
SF 1405	3090-0110
SF 1406	3090-0110
SF 1407	3090-0110
SF 1408	3090-0110
SF 1411	3090-0116
SF 1412	3090-0116
SF 1413	3090-0119
SF 1416	3090-0172
SF 1417	3090-0164
SF 1423	3090-0120
SF 1424	3090-0120
SF 1426	3090-0120
SF 1427	3090-0120
SF 1428	3090-0120
SF 1429	3090-0120
SF 1430	3090-0120
SF 1431	3090-0120
SF 1432	3090-0120
SF 1433	3090-0120
SF 1434	3090-0120
SF 1435	3090-0115
SF 1436	3090-0115
SF 1437	3090-0115
SF 1438	3090-0115
SF 1439	3090-0115
SF 1440	3090-0115
SF 1443	3090-0108
All other requirements	3090-0104

PART 3—IMPROPER BUSINESS PRACTICES AND PERSONAL CONFLICTS OF INTEREST

2. The heading for Subpart 3.3 is revised to read as follows:

Subpart 3.3—Reports of Suspected Antitrust Violations

* * * * *

3. Section 3.302 is revised to read as follows:

3.302 Definitions.

"Identical bids" means bids for the same line item that are determined to be identical as to unit price or total line item amount, with or without the application of evaluation factors (e.g., discount or transportation cost).

"Line item" means an item of supply or service, specified in an invitation for bids, for which the bidder must bid a separate price.

3.302-1 and 3.302-2 [Removed]

4. Subsections 3.302-1 and 3.302-2 are removed.

5. In section 3.303, paragraph (d) is revised to read as follows:

3.303 Reporting suspected antitrust violations.

* * * * *

(d) Identical bids shall be reported under this section if the agency has some reason to believe that the bids resulted from collusion.

* * * * *

PART 13—SMALL PURCHASE AND OTHER SIMPLIFIED PURCHASE PROCEDURES

6. Section 13.000 is revised to read as follows:

13.000 Scope of part.

This part prescribes policies and procedures for the acquisition of supplies, nonpersonal services, and construction from commercial sources, the aggregate amount of which does not exceed $25,000.

7. In section 13.101, the definition of "Small purchase" is revised to read as follows:

13.101 Definitions.

* * * * *

"Small purchase" means an acquisition of supplies, nonpersonal services, and construction in the amount of $25,000 or less using the procedures prescribed in this part.

* * * * *

8. In section 13.302, paragraph (a) is revised to read as follows:

13.302 Conditions for use.

* * * * *

(a) Individual orders do not exceed $25,000, except that executive agencies may establish higher dollar limitations for specified activities or items.

* * * * *

PART 22—APPLICATION OF LABOR LAWS TO GOVERNMENT ACQUISITIONS

* * * * *

Subpart 22.10—[Reserved]

* * * * *

9. The title and text of Subpart 22.10, consisting of sections 22.1000 through 22.1015, are removed, and the subpart is reserved.

PART 25—FOREIGN ACQUISITION

* * * * *

25.401 [Amended]

10. In section 25.401, the table in "Designated country" is amended by adding "Israel" to the list.

11. Section 25.402 is amended as follows:

In paragraphs (a) and (c) change "$169,000" to read "161,000".

Paragraph (b) is revised to read as follows:

25.402 Policy.

* * * * *

(b) Except when waived under section 302(b)(2) of the Trade Agreements Act, there shall be no purchases of foreign end products subject to the Act unless the foreign end products are designated country end products.

* * * * *

25.403 [Amended]

12. In section 25.403, paragraph (a) is amended by changing "$169,000" to read "$161,000".

25.405 [Amended]

13. In section 25.405, the introductory text and paragraph (e) are amended by changing "$169,000" to read "161,000".

25.406 [Amended]

14. Section 25.406 is amended by alphabetically inserting "Maritime Administration of the Department of Transportation" and "Peace Corps" to the list.

15. A new Part 27 is added to read as follows:

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27.601 General

AUTHORITY: 40 USC 486(c); Chapter 137, 10 USC; and 42 USC 2453(c).

27.000 Scope of part.

This part prescribes policies, procedures, and contract clauses pertaining to patents and directs agencies to develop coverage for Rights in Data and Copyrights.

SUBPART 27.1—GENERAL

27.101 Applicability.

The policies, procedures, and clauses prescribed by this Part 27 are applicable to all agencies. Agencies are authorized to adopt alternate policies, procedures, and clauses, but only to the extent determined necessary to meet the specific requirements of laws, executive orders, treaties, or international agreements. Any agency action adopting such alternate policies, procedures, and clauses shall be covered in published agency regulations.

27.102 Reserved.

27.103 Policy.

The policies pertaining to patents, data, and copyrights are set forth in this Part 27 and the related clauses in Part 52.

27.104 General guidance.

(a) The Government encourages the maximum practical commercial use of inventions made while performing Government contracts.

(b) Generally, the Government will not refuse to award a contract on the grounds that the prospective contractor may infringe a patent.

(c) Generally, the Government encourages the use of inventions in performing contracts and, by appropriate contract clauses, authorizes and consents to such use, even though the inventions may be covered by U.S. patents and indemnification against infringement may be appropriate.

(d) Generally, the Government should be indemnified against infringement of U.S. patents resulting from performing contracts when the supplies or services acquired under the contracts normally are or have been sold or offered for sale by any supplier to the public in the commercial open market or are the same as such supplies or services with relatively minor modifications.

(e) The Government acquires supplies or services on a competitive basis to the maximum practical extent, but it is important that the efforts directed toward increasing competition not improperly demand or use data relating to private developments.

(f) The Government honors the rights in data resulting from private developments and limits its demands for such rights to those essential for Government purposes.

(g) The Government honors rights in patents, data, and copyrights, and complies with the stipulations of law in using or acquiring such rights.

(h) Generally, the Government requires that contractors obtain permission from copyright owners before including privately-owned copyrighted works in data required to be delivered under Government contracts.

SUBPART 27.2—PATENTS

27.200 Scope of subpart.

This subpart prescribes policy with respect to—

(a) Patent infringement liability resulting from work performed by or for the Government;

(b) Royalties payable in connection with performing Government contracts; and

(c) Security requirements covering patent applications containing classified subject matter filed by contractors.

27.201 Authorization and consent.

27.201-1 General.

(a) In those cases where the Government has authorized or consented to the manufacture or use of an invention described in and covered by a patent of the United States, any suit for infringement of the patent based on the manufacture or use of the invention by or for the United States by a contractor (including a subcontractor at any tier) can be maintained only against the Government in the U.S. Claims Court and not against the contractor or subcontractor (28 U.S.C. 1498). To ensure that work by a contractor or subcontractor under a Government contract may not be enjoined by reason of patent infringement, the Government shall give authorization and consent in accordance with this regulation. The liability of the Government for damages in any such suit against it may, however, ultimately be borne by the contractor or subcontractor in accordance with the terms of any patent indemnity clause also included in the contract, and an authorization and consent clause does not detract from any patent indemnification commitment by the contractor or subcontractor. Therefore, both a patent indemnity clause and an authorization and consent clause may be included in the same contract.

(b) The contracting officer shall not include in any solicitation or contract—

(1) Any clause whereby the Government expressly agrees to indemnify the contractor against liability for patent infringement; or

(2) Any authorization and consent clause when both complete performance and delivery are outside the United States, its possessions, and Puerto Rico.

27.201-2 Clauses on authorization and consent.

(a) The contracting officer shall insert the clause at 52.227-1, Authorization and Consent, in solicitations and contracts (including those for construction; architect-engineer services; dismantling, demolition, or removal of improvements; and noncommon carrier communication services), except when small purchase procedures apply or both complete performance and delivery are outside the United States, its possessions, and Puerto Rico. Although the clause is not required when small purchase procedures apply, it may be used with them.

(b) The contracting officer shall insert the clause with its Alternate I in all R&D solicitations and contracts (including those for construction and architect-engineer services calling exclusively for R&D work or exclusively for experimental work), unless both complete performance and delivery are outside the United States, its possessions, and Puerto Rico. When a proposed contract involves both R&D work and supplies or services, and the R&D work is the primary purpose of the contract, the contracting officer shall use this alternate. In all other proposed contracts involving both R&D work and supplies or services, the contracting officer shall use the basic clause. Also, when a proposed contract involves either R&D or supplies and materials, in addition to construction or architect-engineer work, the contracting officer shall use the basic clause.

(c) If the solicitation or contract is for communication services with a common carrier and the services are unregulated and not priced by a tariff schedule set by a regulatory body, the contracting officer shall use the clause with its Alternate II.

27.202 Notice and assistance.

27.202-1 General.

The contractor is required to notify the contracting officer of all claims of infringement that come to the contractor's attention in connection with performing a Government contract. The contractor is also required, when requested, to assist the Government with any evidence and information in its possession in connection with any suit against the Government, or any claims against the Government made before suit has been instituted, on account of any alleged patent or copyright infringement arising out of or resulting from the contract performance.

27.202-2 Clause on notice and assistance.

The contracting officer shall insert the clause at 52.227-2, Notice and Assistance Regarding Patent and Copyright Infringement, in supply, service, or research and development solicitations and contracts (including construction and architect-engineer contracts) which anticipate a contract value above the dollar limit set forth at 13.000, except when small purchase procedures apply or both complete performance and delivery are outside the United States, its possessions, and Puerto Rico, unless the contracts indicate that the supplies or other deliverables are ultimately to be shipped into one of those areas.

27.203 Patent indemnification of Government by contractor.

27.203-1 General.

(a) To the extent set forth in this section, the Government requires reimbursement for liability for patent infringement arising out of or resulting from performing construction contracts or contracts for supplies or services that normally are or have been sold or offered for sale by any supplier to the public in the commercial open market or that are the same as such supplies or services with relatively minor modifications. Appropriate clauses for indemnification of the Government are prescribed in the following subsections.

(b) A patent indemnity clause shall not be used in the following situations:

(1) When the clause at 52.227-1, Authorization and Consent, with its Alternate I, is included in the contract, except that in contracts calling also for supplies of the kind described in paragraph (a) above, a patent indemnity clause may be used solely with respect to such supplies.

(2) When the contract is for supplies or services (or such items with relatively minor modifications) that clearly are not or have not been sold or offered for sale by any supplier to the public in the commercial open market. However, a patent indemnity clause may be included in (i) formally advertised contracts to obtain an indemnity regarding specific components, spare parts, or services so sold or offered for sale (see 27.203-2(b) below), and (ii) contracts to be awarded (either by formal advertising or negotiation) if a patent owner contends that the acquisition would result in patent infringement and the prospective contractor, after responding to a solicitation that did not contain an indemnity clause, is willing to indemnify the Government against such infringement either (A) without increase in price on the basis that the patent is invalid or not infringed, or (B) for other good reasons.

(3) When both performance and delivery are to be outside the United States, its possessions, and Puerto Rico, unless the contract indicates that the supplies or other deliverables are ultimately to be shipped into one of those areas.

(4) When the contract is awarded by small purchase procedures.

(5) When the contract is solely for architect-engineer work (see Part 36).

27.203-2 Clauses for formally advertised contracts (excluding construction).

(a) Except when prohibited by 27.203-1(b) above, the contracting officer shall insert the clause at 52.227-3, Patent Indemnity, in formally advertised contracts for supplies or services (excluding construction and dismantling, demolition, and removal of improvements), if the contracting officer determines that the supplies or services (or such items with relatively minor modifications) normally are or have been sold or offered for sale by any supplier to the public in the commercial open market. Also the clause may be included as authorized in 27.203-1(b)(2)(i).

(b) In solicitations and contracts (excluding those for construction) that call in part for specific components, spare parts, or services (or such items with relatively minor modifications) that normally are or have been sold or offered for sale by any supplier to the public in the commercial open market, the contracting officer may use the clause with its Alternate I or II, as appropriate. The choice between Alternate I (identification of excluded items) and Alternate II (identification of included items) should be based upon simplicity, Government administrative convenience and ease of identification of the items.

(c) In solicitations and contracts for communication services and facilities where performance is by a common carrier, and the services are unregulated and are not priced by a tariff schedule set by a regulatory body, use the basic clause with its Alternate III.

27.203-3 Negotiated contracts (excluding construction).

A patent indemnity clause is not required in negotiated contracts, (except construction contracts covered at 27.203-5), but may be used as discussed in 27.203-4 below. A decision to omit a patent indemnity clause in a negotiated fixed-price contract described in this subsection should be based on a price consideration to the Government for the foregoing indemnification rights normally received by commercial purchasers of the same supplies or services.

27.203-4 Clauses for negotiated contracts (excluding construction).

(a) The contracting officer may insert the clause at 52.227-3, Patent Indemnity—

(1) As authorized in 27.203-1(b)(2)(ii); and

(2) Except as prohibited by 27.203-1(b), in solicitations anticipating negotiated contracts (and such contracts) for supplies or services (excluding construction and dismantling, demolition, and removal of

improvements), if the contracting officer determines that the supplies or services (or such items with relatively minor modifications) normally are or have been sold or offered for sale by any supplier to the public in the commercial open market. Ordinarily, the contracting officer, in consultation with the prospective contractor, should be able to determine whether the supplies or services being purchased normally are or have been sold or offered for sale by any supplier to the public in the commercial open market. (For negotiated construction contracts, see 27.203-5).

(b) In solicitations and contracts that call in part for specific components, spare parts, or services (or such items with relatively minor modifications) that normally are or have been sold or offered for sale by any supplier to the public in the commercial open market, the contracting officer may use the clause with its Alternate I or II, as appropriate. The choice between Alternate I (identification of excluded items) and Alternate II (identification of included items) should be based upon simplicity, Government administrative convenience, and the ease of identification of the items.

(c) In solicitations and contracts for communication services and facilities where performance is by a common carrier, and the services are unregulated and are not priced by a tariff schedule set by a regulatory body, the clause shall be used with its Alternate III.

27.203-5 Clause for construction contracts and for dismantling, demolition, and removal of improvements contracts.

Except as prohibited by 27.203-1(b), the contracting officer shall insert the clause at 52.227-4, Patent Indemnity—Construction Contracts, in solicitations and contracts for construction or that are fixed-price for dismantling, demolition, or removal of improvements. If it is determined that the construction will necessarily involve the use of structures, products, materials, equipment, processes, or methods that are nonstandard, noncommercial, or special, the contracting officer may expressly exclude them from the patent indemnification by using the basic clause with its Alternate I.

27.203-6 Clause for Government waiver of indemnity.

If, in the Government's interest, it is appropriate to exempt one or more specific United States patents from the patent indemnity clause, the contracting officer shall obtain written approval from the agency head or designee and shall insert the clause at 52.227-5, Waiver of Indemnity, in solicitations and contracts in addition to the appropriate patent indemnity clause. The contracting officer shall document the contract file with a copy of the written approval.

27.204 Reporting of royalties—anticipated or paid.

27.204-1 General.

(a) (1) To determine whether royalties anticipated or actually paid under Government contracts are excessive, improper, or inconsistent with any Government rights in particular inventions, patents, or patent applications, contracting officers shall require prospective contractors to furnish certain royalty information and shall require contractors to furnish certain royalty reports. Contracting officers shall take appropriate action to reduce or eliminate excessive or improper royalties.

(2) Royalty information shall not be required (except for information under 27.204-3) in formally advertised contracts unless the need for such information is approved at a level above that of the contracting officer as being necessary for proper protection of the Government's interests.

(b) When it is expected that work may be performed in the United States, its possessions, or Puerto Rico, any solicitation that may result in a negotiated contract for which royalty information is desired or for which cost or pricing data is obtained (see 15.804) should contain a provision requesting information relating to any proposed charge for royalties. If the work is to be performed in the United States, its possessions, or Puerto Rico and the response to the solicitation includes a charge for royalties, the contracting officer shall, before award of the contract, forward the information relating to the proposed payments of royalties to the office having cognizance of patent matters for the contracting activity concerned. The cognizant office shall promptly advise the contracting officer of appropriate action. Before award, the contracting officer shall take action to protect the Government's interest with respect to such royalties, giving due regard to all pertinent factors relating to the proposed contract and the advice of the cognizant office.

(c) The contracting officer, when considering the approval of a subcontract for work to be performed in the United States, its possessions, or Puerto Rico, shall require and obtain the same royalty information and take the same action with respect to such subcontracts in relation to royalties as required for prime contracts under paragraph (b) above. However, consent need not be withheld pending receipt of advice in regard to such royalties from the office having cognizance of patent matters.

(d) The contracting officer shall forward the royalty information and/or royalty reports received to the office having cognizance of patent matters for the contracting activity concerned for advice as to appropriate action.

27.204-2 Solicitation provision for royalty information.

If it is expected that work may be performed in the United States, its possessions, or Puerto Rico, the contracting officer shall insert a solicitation provision substantially as shown in 52.227-6, Royalty Information, in any solicitation that may result in a negotiated contract for which royalty information is desired or for which cost or pricing data is obtained under 15.804. If the solicitation is for communication services and facilities by a common carrier, use the provision with its Alternate I.

27.204-3 Patents—notice of Government as a licensee.

(a) When the Government is obligated to pay a royalty on a patent because of a license agreement between the Government and a patent owner and the contracting officer knows (or has reason to believe) that the licensed patent will be applicable to a prospective contract, the Government should furnish information relating to the royalty to prospective offerors since it serves the interest of both the Government and the offerors. In such situations, the contracting officer should include in the solicitation a notice of the license, the number of the patent, and the royalty rate recited in the license.

(b) When the Government is obligated to pay such a royalty, the solicitation should also require offerors to furnish information indicating whether or not each offeror is a licensee under the patent or the patent owner. This information is necessary so that the Government may either (1) evaluate an offeror's price by adding an amount equal to the royalty, or (2) negotiate a price reduction with an offeror-licensee when the offeror is licensed under the same patent at a lower royalty rate.

(c) If the Government is obligated to pay a royalty on a patent involved in the prospective contract, the contracting officer shall insert in the solicitation, substantially as shown, the provision at 52.227-7, Patents—Notice of Government Licensee.

27.204-4 Clause for reporting of royalties (foreign).

In solicitations contemplating negotiated contracts (and such contracts) to be performed outside the United States, its possessions, and Puerto Rico, regardless of the place of delivery, the contracting officer shall insert the clause at 52.227-8, Reporting of Royalties (Foreign).

27.205 Adjustment of royalties.

(a) If at any time the contracting officer has reason to believe that any royalties paid, or to be paid, under an existing or prospective contract or subcontract are inconsistent with Government rights, excessive, or otherwise improper, the facts shall be promptly reported to the office having cognizance of patent matters for the contracting activity concerned. The cognizant office shall review the royalties thus reported and such royalties as are reported under 27.204 and 27.206 and, in accordance with agency procedures, shall either recommend appropriate action to the contracting officer or, if authorized, shall take appropriate action.

(b) In coordination with the cognizant office, the contracting officer shall promptly act to protect the Government against payment of royalties on supplies or services—

(1) With respect to which the Government has a royalty-free license;

(2) At a rate in excess of the rate at which the Government is licensed; or

(3) When the royalties in whole or in part otherwise constitute an improper charge.

(c) In appropriate cases, the contracting officer in coordination with the cognizant office shall obtain a refund pursuant to any refund of royalties clause in the contract (see 27.206) or negotiate for a reduction of royalties.

(d) For guidance in evaluating information furnished pursuant to 27.204 and 27.205(a) above, see 31.205-37 and 31.311-34. See also 31.109 regarding advance understandings on particular cost items, including royalties.

27.206 Refund of royalties.

27.206-1 General.

When a fixed-price contract is negotiated under circumstances that make it questionable whether or not substantial amounts of royalties will have to be paid by the contractor or a subcontractor, such royalties may be included in the target or contract price, provided the contract specifies that the Government will be reimbursed the amount of such royalties if they are not paid. Such circumstances might include, for example, either a pending Government anti-trust action or prospective litigation on the validity of a patent or patents or on the enforceability of an agreement (upon which the contractor or subcontractor bases the asserted obligation) to pay the royalties to be included in the target or contract price.

27.206-2 Clause for refund of royalties.

The contracting officer shall insert the clause at 52.227-9, Refund of Royalties, in negotiated fixed-price contracts and solicitations contemplating such contracts if the contracting officer determines that circumstances make it questionable whether or not substantial amounts of royalties will have to be paid by the contractor or a subcontractor at any tier.

27.207 Classified contracts.

27.207-1 General.

(a) Unauthorized disclosure of classified subject matter, whether in patent applications or resulting from the issuance of a patent, may be a violation of 18 U.S.C. 792 et seq. (Espionage and Censorship), and related statutes, and may be contrary to the interests of national security.

(b) Upon receipt from the contractor of a patent application, not yet filed, that has been submitted by the contractor in compliance with paragraph (a) or (b) of the clause at 52.227-10, Filing of Patent Applications—Classified Subject Matter, the contracting officer shall ascertain the proper security classification of the patent application. Upon a determination that the application contains classified subject matter, the contracting officer shall inform the contractor of any instructions deemed necessary or advisable relating to transmittal of the application to the United States Patent Office in accordance with procedures in the Department of Defense Industrial Security Manual for Safeguarding Classified Security Information. If the material is classified "Secret" or higher, the contracting officer shall make every effort to notify the contractor of the determination within 30 days, pursuant to paragraph (a) of the clause.

(c) In the case of all applications filed under the provisions of this section 27.207, the contracting officer, upon receiving the application serial number, the filing date, and the information furnished by the contractor under paragraph (d) of the clause at 52.227-10, Filing of Patent Applications—Classified Subject Matter, shall promptly submit that information to personnel having cognizance of patent matters in order that the steps necessary to ensure the security of the application may be taken.

(d) A request for the approval referred to in paragraph (c) of the clause at 52.227-10, Filing of Patent Applications—Classified Subject Matter, must be considered and acted upon promptly by the contracting officer in order to avoid the loss of valuable patent rights of the Government or the contractor.

27.207-2 Clause for classified contracts.

The contracting officer shall insert the clause at 52.227-10, Filing of Patent Applications—Classified Subject Matter, in all classified solicitations and contracts and in all solicitations and contracts where the nature of the work or classified subject matter involved in the work reasonably might be expected to result in a patent application containing classified subject matter.

SUBPART 27.3—PATENT RIGHTS UNDER GOVERNMENT CONTRACTS

27.300 Scope of subpart.

This subpart prescribes policies, procedures, and contract clauses with respect to inventions made in the performance of work under a Government contract or subcontract thereunder if a purpose of the contract or subcontract is the conduct of experimental, developmental, or research work, except to the extent statutory requirements necessitate different agency policies, procedures, and clauses as specified in agency supplemental regulations.

27.301 Definitions.

"Invention," as used in this subpart, means any invention or discovery that is or may be patentable or otherwise protectable under Title 35 of the U.S. Code.

"Made," as used in this subpart, when used in relation to any invention, means the conception or first actual reduction to practice of such invention.

"Nonprofit organization," as used in this subpart, means a domestic university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)), or any domestic nonprofit scientific or educational organization qualified under a State nonprofit organization statute.

"Practical application," as used in this subpart, means to manufacture, in the case of a composition or product; to practice, in the case of a process or method; or to operate, in the case of a

machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

"Small business firm," as used in this subpart, means a domestic small business concern as defined at 15 U.S.C. 632 and implementing regulations of the Administrator of the Small Business Administration. (For the purpose of this definition, the size standard contained in 13 CFR 121.3-8 for small business contractors and in 13 CFR 121.3-12 for small business subcontractors will be used. See FAR Part 19).

"Subject invention," as used in this subpart, means any invention of the contractor conceived or first actually reduced to practice in the performance of work under a Government contract.

27.302 Policy.

(a) *Introduction.* (1) The policy of this section is based on 35 U.S.C. Chapter 18 (Pub. L. 96-517), OMB Circular A-124, and the Presidential Memorandum on Government Patent Policy to the Heads of Executive Departments and Agencies dated February 18, 1983. The objectives of this policy are to use the patent system to promote the utilization of inventions arising from federally supported research or development; to encourage maximum participation of industry in federally supported research and development efforts; to ensure that these inventions are used in a manner to promote free competition and enterprise; to promote the commercialization and public availability of the inventions made in the United States by United States industry and labor; to ensure that the Government obtains sufficient rights in federally supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions; and to minimize the costs of administering policies in this area.

(2) Some agencies are subject, in whole or in part, to one of the following statutes, which require that information as to uses, products, processes, patents, or other developments "be available to the general public": 31 U.S.C. 666, 22 U.S.C. 2572, 50 U.S.C. 167b, 30 U.S.C. 951(c), 30 U.S.C. 937(b), 40 U.S.C. App. 302(e), 30 U.S.C. 1226, and 15 U.S.C. 1395(c). Such agencies shall generally use the clauses herein allowing title to patents to be retained by the contractor, and the related procedures.

(b) *Contractor right to elect title.* Under the policy set forth in paragraph (a) above, each contractor may, after disclosure to the Government as required by the patent rights clause included in the contract, elect to retain title to any invention made in the performance of work under the contract. To the extent an agency's statutory requirements necessitate a different policy, or different procedures and/or contract clauses to effectuate the policy set forth in paragraph (a) above, such policy, procedures, and clauses shall be contained in or expressly referred to in that agency's supplement to this subpart. In addition, a contract may provide otherwise (1) when the contract is for the operation of a Government-owned research or production facility; (2) in exceptional circumstances when it is determined by the agency that restriction or elimination of the right to retain title in any subject invention will better promote the policy and objectives of 35 U.S.C. Chapter 18 and the Presidential Memorandum, or (3) when it is determined by a Government authority which is authorized by statute or Executive Order to conduct foreign intelligence or counterintelligence activities that the restriction or elimination of the right to retain title to any subject invention is necessary to protect the security of such activities. In those instances when the Government has the right to acquire title at the time of contracting the contractor may, nevertheless, request greater rights to an identified invention. (See 27.304-1(a).) The right of the contractor to retain title shall, in any event, be subject to the provisions of paragraphs (c) through (g) below unless for contracts with other than small business or nonprofit organizations the agency determines before contract award that all or portions of these provisions may be modified, waived, or omitted. (See 27.304-1(f).)

(c) *Government license.* The Government shall have (unless provided otherwise in accordance with 27.304-1(f)) at least a nonexclusive, nontransferable, irrevocable, paid-up license to practice, or have practiced for or on behalf of the United States, any subject invention throughout the world; and may, if provided in the contract (see Alternate I of the applicable patent rights clause), have additional rights to sublicense any foreign government or international organization pursuant to existing treaties or agreements identified in the contract, and any future treaty or agreement.

(d) *Government right to receive title.* (1) The Government has the right to receive title to any invention if the contract so provides pursuant to a determination made in accordance with subparagraph (b)(1), (2), or (3) above. In addition, to the extent provided in the patent rights clause, the Government has the right to receive title to an invention—

(i) If the contractor has not disclosed the invention within the time specified in the clause;

(ii) In any country where the contractor does not elect to retain rights or fails to elect to retain rights to the invention within the time specified in the clause;

(iii) In any country where the contractor has not filed a patent application within the time specified in the clause;

(iv) In any country where the contractor decides not to continue prosecution of a patent application, pay maintenance fees, or defend in a reexamination or opposition proceeding on the patent; and/or

(v) In any country where the contractor no longer desires to retain title.

(2) For the purposes of this paragraph, election or filing in a European Patent Office Region or under the Patent Cooperation Treaty constitutes election or filing in any country covered therein to meet the times specified in the clause, provided that the Government has the right to receive title in those countries not subsequently designated by the contractor.

(e) *Utilization reports.* Unless provided otherwise in accordance with 27.304-1(f), contracts provide that the Government shall have the right to require periodic reporting on the utilization or efforts at obtaining utilization that are being made by the contractor or its licensees or assignees. Such reporting by small business firms and nonprofit organizations may be required in accordance with instructions as may be issued by the Department of Commerce. Agencies should protect the confidentiality of utilization reports to the extent permitted by 35 U.S.C. 205 or other applicable laws and OMB Circular A-124.

(f) *March-in rights.* (1) With respect to any subject invention in which a contractor has acquired title, contracts provide that the agency shall have the right (unless provided otherwise in accordance with 27.304-1(f)) to require the contractor, an assignee, or exclusive licensee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances, and if the contractor, assignee, or exclusive licensee refuses such request, to grant such a license itself, if the agency determines that such action is necessary—

(i) Because the contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use;

(ii) To alleviate health or safety needs which are not reasonably satisfied by the contractor, assignee, or their licensees;

(iii) To meet requirements for public use specified by Federal regulations and such requirements are not reasonably satisfied by the contractor, assignee, or licensees; or

(iv) Because the agreement required by paragraph (g) below has neither been obtained nor waived, or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of its agreement obtained pursuant to paragraph (g) below.

(2) This right of the agency shall be exercised only after the contractor has been provided a reasonable time to present facts and show cause why the proposed agency action should not be taken, and afforded an opportunity to take appropriate action if the contractor wishes to dispute or appeal the proposed action, in accordance with 27.304-1(g).

(g) *Preference for United States industry.* Unless provided otherwise in accordance with 27.304-1(f), contracts provide that no contractor which receives title to any subject invention and no assignee of any such contractor shall grant to any person the exclusive right to use or sell any subject invention in the United States unless such person agrees that any products embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the agency upon a showing by the contractor or assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible.

(h) *Minimum rights to contractor.* (1) When the Government acquires title to a subject invention, the contractor is normally granted a revocable, nonexclusive, royalty-free license to that invention throughout the world. The contractor's license extends to its domestic subsidiaries and affiliates, if any, within the corporate structure of which the contractor is a part and includes the right to grant sublicenses of the same scope to the extent the contractor was legally obligated to do so at the time the contract was awarded. The license is transferable only with the approval of the contracting officer except when transferred to the successor of that part of the contractor's business to which the invention pertains.

(2) The contractor's domestic license may be revoked or modified to the extent necessary to achieve expeditious practical application of the subject invention pursuant to an application for an exclusive license submitted in accordance with the applicable provisions in the Federal Property Management Regulations and agency licensing regulations. This license will not be revoked in that field of use or the geographical areas in which the contractor has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified to the extent the contractor, its licensees, or its domestic subsidiaries or affiliates have failed to achieve practical application in that country. See the procedures at 27.304-1(e).

(i) *Confidentiality of inventions.* The publication of information disclosing an invention by any party before the filing of a patent application may create a bar to a valid patent. Accordingly, 35 U.S.C. 205 and OMB Circular A-124 provide that Federal agencies are authorized to withhold from disclosure to the public information disclosing any invention in which the Federal Government owns or may own a right, title, or interest (including a nonexclusive license) for a reasonable time in order for a patent application to be filed. Furthermore, Federal agencies shall not be required to release copies of any document which is part of an application for patent filed with the United States Patent and Trademark Office or with any foreign patent office. The Presidential Memorandum on Government Patent Policy specifies that agencies should protect the confidentiality of invention disclosures and patent applications required in performance or in consequence of awards to the extent permitted by 35 U.S.C. 205 or other applicable laws.

27.303 Contract clauses.

In contracts (and solicitations therefor) for experimental, developmental, or research work (but see 27.304-3 regarding contracts for construction work or architect-engineer services), a patent rights clause shall be inserted as follows:

(a) (1) The contracting officer shall insert the clause at 52.227-11, Patent Rights—Retention by the Contractor (Short Form), if all the following conditions apply:

(i) The contractor is a small business concern or nonprofit organization as defined in 27.301 or, except for contracts of the Department of Defense (DOD), the Department of Energy (DOE), or the National Aeronautics and Space Administration (NASA), any other type of contractor.

(ii) No alternative patent rights clause is used in accordance with paragraphs (c) or (d) below or 27.304-2.

(2) To the extent the information is not required elsewhere in the contract, and unless otherwise specified by agency supplemental regulations, the contracting officer may modify paragraph (f) of the clause to require the contractor to do one or more of the following:

(i) Provide periodic (but not more frequently than annually) listings of all subject inventions required to be disclosed during the period covered by the report.

(ii) Provide a report prior to the closeout of the contract listing all subject inventions or stating that there were none.

(iii) Provide notification of all subcontracts for experimental, developmental, or research work.

(iv) Provide, upon request, the filing date, serial number and title; a copy of the patent application; and patent number and issue date for any subject invention in any country in which the contractor has applied for patents.

(v) Furnish the Government an irrevocable power to inspect and make copies of the patent application file.

(3) If the acquisition of patent rights for the benefit of a foreign government is required under a treaty or executive agreement or if the agency head or a designee determines at the time of contracting that it would be in the national interest to acquire the right to sublicense foreign governments or international organizations pursuant to any existing or future treaty or agreement, the contracting officer shall use the clause with its Alternate I.

(b) (1) The contracting officer shall insert the clause at 52.227-12, Patent Rights—Retention by the Contractor (Long Form), if all the following conditions apply:

(i) The contractor is other than a small business firm or nonprofit organization.

(ii) No alternative clause is used in accordance with paragraph (c) or (d) below or 27.304-2.

(iii) The contracting agency is one of those excepted under subdivision (a)(1)(i) above.

(2) If the acquisition of patent rights for the benefit of a foreign government is required under a treaty or executive agreement or if the agency head or a designee determines at the time of contracting that it would be in the national interest to acquire the right to sublicense foreign governments or international organizations pursuant to any existing or future treaty or agreement, the contracting officer shall use the clause with its Alternate I.

(c) (1) The contracting officer shall insert the clause at 52.227-13, Patent Rights—Acquisition by the Government, if any of the following conditions apply:

(i) No alternative clause is used in accordance with subparagraph (c)(2) or paragraph (d) below or 27.304-2.

(ii) The work is to be performed outside the United States, its possessions, and Puerto Rico by contractors that are not small business firms, nonprofit organizations as defined in 27.301, or domestic firms. For purposes of this subparagraph, the contracting officer may presume that a contractor is not a domestic firm unless it is known that the firm is not foreign owned, controlled, or influenced. (See 27.304-4(a) regarding subcontracts with U.S. firms.)

(2) Pursuant to their statutory requirements, DOE and NASA may specify in their supplemental regulations use of a modified version of the clause at 52.227-13 in contracts with other than small business concerns or nonprofit organizations.

(3) If the acquisition of patent rights for the benefits of a foreign government is required under a treaty or executive agreement or if the agency head or a designee determines at the time of contracting that it would be in the national interest to acquire the right to sublicense foreign governments or international organizations pursuant to any existing or future treaty or agreement, the contracting officer shall use the clause with its Alternate I.

(d) (1) If one of the following applies, the contracting officer may insert the clause prescribed in paragraph (a) or (b) above as otherwise applicable; agency supplemental regulations may provide another clause and specify its use; or the contracting officer shall insert the clause prescribed in paragraph (c) above:

(i) The contract is for the operation of a Government-owned research or production facility.

(ii) There are exceptional circumstances and the agency head determines that restriction or elimination of the right to retain title to any subject invention will better promote the policy and objectives of Chapter 18 of Title 35 of the United States Code.

(iii) It is determined by a Government authority which is authorized by statute or executive order to conduct foreign intelligence or counterintelligence activities that restriction or elimination of the right to retain any subject invention is necessary to protect the security of such activities.

(2) Any determination under subdivision (1)(ii) above will be in writing and accompanied by a written statement of facts justifying the determination. The statement of facts will contain such information as the agency deems relevant and, at a minimum, will (i) identify the organization involved, (ii) describe the extent to which agency action restricted or eliminated the right to retain title to a subject invention, (iii) state the facts and rationale supporting the agency action, (iv) provide supporting documentation for those facts and rationale, and (v) indicate the nature of any objections to the agency action and provide any documentation in which those objections appear. In the case of contracts with small business concerns or nonprofit organizations, a copy of each such determination and written statement of facts will be sent to the Comptroller General of the United States within 30 days after the award of the applicable funding agreement. In the case of contracts with small business concerns, copies will also be sent to the Chief Counsel for Advocacy of the Small Business Administration.

(e) To qualify for the clause at 52.227-11, a prospective contractor may be required by the agencies excepted under subdivision (a)(1)(i) above to certify that it is either a small business firm or a nonprofit organization. If one of these agencies has reason to question the status of the prospective contractor, the agency may file a protest in accordance with 13 CFR 121.3-5 if small business firm status is questioned or require the prospective contractor to furnish evidence of its status as a nonprofit organization.

(f) The Alternates to the clauses at 52.227-11, 52.227-12, and 52.227-13, as applicable, may be modified by deleting the reference to future treaties or agreements or by otherwise more narrowly defining classes of future treaties or agreements. It may also be modified to make clear that the rights granted to the foreign government or international organization may be for additional rights beyond a license or sublicense if so required by the applicable treaty or international agreement. For example, in some cases exclusive licenses or even assignment of title in the foreign country involved might be required. In addition, the Alternate may be modified to provide for direct licensing by the contractor of the foreign government or international organization.

27.304 Procedures.

27.304-1 General.

(a) *Greater rights determinations.* Whenever the contract contains the clause at 52.227-13, Patent Rights—Acquisition by the Government, the contractor (or an employee-inventor of the contractor after consultation with the contractor) may request greater rights to an identified invention within the period specified in such clause. Requests for greater rights may be granted if the agency head or designee determines that the interests of the United States and the general public will be better served thereby. In making such determinations, the agency head or designee shall consider at least the following objectives:

(1) Promoting the utilization of inventions arising from federally supported research and development.

(2) Ensuring that inventions are used in a manner to promote free competition and enterprise.

(3) Promoting public availability of inventions made in the United States by United States industry and labor.

(4) Ensuring that the Government obtains sufficient rights in federally-supported inventions to meet the needs of the Government and protect the public against nonuse or unreasonable use of inventions.

(b) *Retention of rights by inventor.* If the contractor does not elect to retain title to a subject invention, the agency may consider and, after consultation with the contractor, grant requests for retention of rights by the inventor. Retention of rights by the inventor will be subject to the conditions in paragraph (d) (except subparagraph (d)(1)), subparagraph (f)(4), and paragraphs (h), (i), and (j) of the applicable Patent Rights—Retention by the Contractor clause.

(c) *Government assignment to contractor of rights in Government employees' inventions.* When a Government employee is a coinventor of an invention made under a contract with a small business firm or nonprofit organization, the agency employing the coinventor may transfer or reassign whatever right it may acquire in the subject invention from its employee to the contractor, subject to the conditions of 35 U.S.C. Chapter 18 and OMB Circular A-124.

(d) *Additional requirements.* (1) If it is desired to have the right to require any of the following, the contract shall be modified to require the contractor to do one or more of the following:

(i) Provide periodic (but not more frequently than annually) listings of all subject inventions required to be disclosed during the period covered by the report.

(ii) Provide a report prior to the closeout of the contract listing all subject inventions or stating that there were none.

(iii) Provide notification of all subcontracts for experimental, developmental, or research work.

(iv) Provide upon request, the filing date, serial number and title; a copy of the patent application; and patent number and issue date for any subject invention in any country in which the contractor has applied for patents.

(v) Furnish the Government an irrevocable power to inspect and make copies of the patent application file.

(2) To the extent provided by such modification (and automatically under the terms of the clauses at 52.227-12 and -13), the contracting officer may require the contractor to—

(i) Furnish a copy of each subcontract containing a patent rights clause (but if a copy of a subcontract is furnished under another clause, a duplicate shall not be requested under the patent rights clause);

(ii) Submit interim and final invention reports listing subject inventions and notifying the contracting officer of all subcontracts awarded for experimental, developmental, or research work;

(iii) Submit information regarding the filing date, serial number and title, and, upon request, a copy of the patent application, and patent number and issue date for any subject invention in any country for which the contractor has retained title; and

(iv) Submit periodic reports on the utilization of a subject invention or on efforts at obtaining utilization that are being made by the contractor or its licensees or assignees.

(3) The contractor is required to deliver to the contracting officer an instrument confirmatory of all rights to which the Government is entitled and to furnish the Government an irrevocable power to inspect and make copies of the patent application file. Such delivery should normally be made within 6 months after filing each patent application, or within 6 months after submitting the invention disclosure if the application has been previously filed.

(e) *Revocation or modification of contractor's minimum rights.* Before revocation or modification of the contractor's license in accordance with 27.302(h)(2), the contracting officer will furnish the contractor a written notice of intention to revoke or modify the license, and the contractor will be allowed 30 days (or such other time as may be authorized by the contracting officer for good cause shown by the contractor) after the notice to show cause why the license should not be revoked or modified. The contractor has the right to appeal, in accordance with applicable provisions in the Federal Property Management Regulations and agency licensing regulations, any decisions concerning the revocation or modification.

(f) *Modification, waiver, or omission of rights of the Government or obligations of the contractor.* (1) In contracts not subject to 35 U.S.C. Chapter 18, an agency may modify, waive, or omit, in whole or in part, any of the rights of the Government or obligations of the contractor described in 27.302(c) through (h) if the agency head or designee determines at the time of contracting (i) that the interests of the United States and the general public will be better served thereby as, for example, where this is necessary to obtain a uniquely or highly qualified contractor, or (ii) that the contract involves cosponsored, cost sharing, or joint venture research and development, and the contractor, cosponsor, or joint venturer is making a substantial contribution of funds, facilities, or equipment to the work performed under the contract.

(2) Any modification, waiver, or omission of the rights of the Government shall be in writing and accompanied by a written statement of facts justifying the determination. Inasmuch as these rights are normally considered the minimum rights necessary to protect the interests of the United States and the general public under the policy and objectives of 27.302(a)(1), such statement must specifically—

(i) Describe the extent to which the Government's rights are to be modified, waived, or omitted;

(ii) State the facts and rationale for such modification, waiver, or omission; and

(iii) Include a statement as to why the interests of the United States and the general public will be better served by such modification, waiver, or omission under the policy and objectives of 27.302(a)(1), with particular emphasis on (A) ensuring that the Government obtains sufficient rights to meet its needs competitively and at the lowest cost when relinquishing the Government's royalty-free license rights, (B) protecting the public against nonuse or unreasonable use of inventions arising out of the contract when relinquishing march-in rights intended to prevent suppression of such inventions and to assure their availability to meet health or safety needs or regulatory requirements, and (C) promoting the public availability of such inventions through commercialization by United States industry and labor.

(g) *Exercise of march-in rights.* The following procedures shall govern the exercise of the march-in rights set forth in 35 U.S.C. 203, paragraph (j) of the Patent Rights—Retention by the Contractor clauses, and subdivision (c)(1)(ii) of the Patent Rights—Acquisition by the Government clause:

(1) When the agency receives information that it believes might warrant the exercise of march-in rights, before initiating any march-in proceeding in accordance with the procedures of subparagraph (2) below, it shall notify the contractor in writing of the information and request informal written or oral comments from the contractor. In the absence of any comments from the contractor within 30 days the agency may, at its discretion, initiate the procedures below. If a comment is received, whether or not within 30 days, then the agency shall, within 60 days after it receives the comment, either initiate the procedures below or notify the contractor, in writing, that it will not pursue march-in rights based on the information about which the contractor was notified.

(2) A march-in proceeding shall be initiated by the issuance of a written notice by the agency head or a designee to the contractor and its assignee or exclusive licensee, as applicable, stating that the Government has determined to exercise march-in rights. The notice shall state the reasons for the proposed march-in in terms sufficient to put the contractor on notice of the facts upon which the action is based, and shall specify the field or fields of use in which the Government is considering requiring licensing. The notice shall advise the contractor, assignee, or exclusive licensee of its rights as set forth in 33.011 and in any supplemental agency regulations or procedures. The determination to exercise march-in rights shall be made by the contracting officer, as a final decision for purposes of the Contract Disputes Act in accordance with 33.011.

(3) These procedures shall also apply to the exercise or march-in rights against inventors receiving title to subject inventions under 35 U.S.C. 202(d) and, for that purpose, the term

"contractor" as used herein shall be deemed to include the inventor.

(4) The contractor, assignee, or exclusive licensee will not be required to grant a license and the Government will not grant any license until after either (i) 90 days from the date of the contractor's receipt of the contracting officer's decision, if no appeal of the decision has been made to a Board of Contract Appeals and if no action has been brought under 41 U.S.C. 609 within that time, or (ii) the board or court has made a final decision, in cases when an appeal or action has been brought within 90 days of the contracting officer's decision.

(h) *Licenses and assignments under contracts with nonprofit organizations.* If the contractor is a nonprofit organization, the clause at 52.227-11 provides that certain contractor actions require agency approval, as specified below. Agencies shall provide procedures for obtaining such approval.

(1) Rights to a subject invention in the United States may not be assigned without the approval of the contracting agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in or does not hold a substantial interest in other organizations engaged in the manufacture or sale of products or the use of processes that might utilize the invention or be in competition with embodiments of the invention (provided that such assignee will be subject to the same provisions as the contractor).

(2) The contractor may not grant exclusive licenses under United States patents or patent applications in subject inventions to persons other than small business firms for a period in excess of the earlier of—

(i) Five years from first commercial sale or use of the invention; or

(ii) Eight years from the date of the exclusive license excepting that time before regulatory agencies necessary to obtain premarket clearance, unless on a case-by-case basis the contracting agency approves a longer exclusive license. If exclusive field of use licenses are granted, commercial sale or use in one field of use will not be deemed commercial sale or use as to other fields of use, and a first commercial sale or use with respect to a product of the invention will not be deemed to end the exclusive period to different subsequent products covered by the invention.

27.304-2 Contracts placed by or for other Government agencies.

The following procedures apply unless agency agreements provide otherwise:

(a) When a Government agency requests another Government agency to award a contract on its behalf, the request should explain any special circumstances surrounding the contract and specify and furnish the patent rights clause to be used. Normally, the clause will be in accordance with the policies and procedures of this subpart. If, however, the request states that a clause of the requesting agency is required (e.g., because of statutory requirements, a deviation, or exceptional circumstances) that clause shall be used rather than those of this subpart.

(1) If the request states that an agency clause is required and the work to be performed under the contract is not severable and is funded wholly or in part by the agency, then that agency clause and no other patent rights clause shall be included in the contract.

(2) If the request states that an agency clause is required, and the work to be performed under the contract is severable and is only in part for the requesting agency, then the work which is on behalf of the requesting agency shall be identified in the contract, and the agency clause shall be made applicable to that portion. In such situations, the remaining portion of the work (for the agency awarding the contract) shall likewise be identified and the appropriate patent rights clause (if required) shall be made applicable to that remaining portion.

(3) If the request states that an agency clause is not required in any resulting contract, then the appropriate patent rights clause shall be used, if a patent rights clause is required.

(b) Where use of the specified clause, or any modification, waiver, or omission of the Government's rights under any provisions therein, requires a written determination, the reporting of such determination, or a deviation, if any such acts are required in accordance with 27.303(d)(2), 27.304-1(f)(2), or 1.4, it shall be the responsibility of the requesting agency to make such determination, submit the required reports, and obtain such deviations, in consultation with the contracting agency, unless otherwise agreed between the contracting and requesting agencies. However, a deviation to a specified clause of the requesting agency shall not be made without prior approval of that agency.

(c) The requesting agency may require, and provide instructions regarding, the forwarding or handling of any invention disclosures or other reporting requirements of the specified clauses. Normally the requesting agency shall be responsible for the handling of any disclosed inventions, including the filing of patent applications where the Government receives title, and the custody, control, and licensing thereof, unless provided otherwise in the instructions or other agreements with the contracting agency.

27.304-3 Contracts for construction work or architect-engineer services.

(a) If a solicitation or contract for construction work or architect-engineer services has as a purpose the performance of experimental, developmental, or research work or test and evaluation studies involving such work and calls for, or can be expected to involve, the design of a Government facility or of novel structures, machines, products, materials, processes, or equipment (including construction equipment), it shall include a patent rights clause selected in accordance with the policies and procedures of this Subpart 27.3.

(b) A solicitation or contract for construction work or architect-engineer services that calls for or can be expected to involve *only* "standard types of construction" to be built by previously developed equipment, methods, and processes shall not include a patent rights clause. The term "standard types of construction" means construction in which the distinctive features, if any, in all likelihood will amount to no more than—

(1) Variations in size, shape, or capacity of otherwise structurally orthodox and conventionally acting structures or structural groupings; or

(2) Purely artistic or esthetic (as distinguished from functionally significant) architectural configurations and designs of both structural and nonstructural members or groupings, which may or may not be sufficiently novel or meritorious to qualify for design protection under the design patent or copyright laws.

27.304-4 Subcontracts.

(a) The policies and procedures covered by this subpart apply to all contracts at any tier. Hence, a contractor awarding a subcontract and a subcontractor awarding a lower-tier subcontract that has as a purpose the conduct of experimental, developmental, or research work is required to determine the appropriate patent rights clause to be included that is consistent with these policies and procedures. Generally, the clause at either 52.227-11, 52.227-12, or 52.227-13 is to be used and will be so specified in the patent rights clause contained in the higher-tier contract, but the contracting officer may direct the use of a particular patent

rights clause in any lower-tier contract in accordance with the policies and procedures of this subpart. For instance, when the clause at 52.227-13 is in the prime contract because the work is to be performed overseas, any subcontract with a nonprofit organization would contain the clause at 52.227-11.

(b) Whenever a prime contractor or a subcontractor considers the inclusion of a particular clause in a subcontract to be inappropriate or a subcontractor refuses to accept the proffered clause, the matter shall be resolved by the agency contracting officer in consultation with counsel.

(c) It is Government policy that contractors shall not use their ability to award subcontracts as economic leverage to acquire rights for themselves in inventions resulting from subcontracts.

27.304-5 Appeals.

(a) The agency official initially authorized to take any of the following actions shall provide the contractor with a written statement of the basis for the action at the time the action is taken, including any relevant facts that were relied upon in taking the action:

(1) A refusal to grant an extension to the invention disclosure period under subparagraph (c)(4) of the clauses at 52.227-11 and 52.227-12.

(2) A request for a conveyance of title to the Government under 27.302(d)(1)(i) through (v).

(3) A refusal to grant a waiver under 27.302(g), Preference for U.S. Industry.

(4) A refusal to approve an assignment under 27.304-1(h)(1).

(5) A refusal to approve an extension of the exclusive license period under 27.304-1(h)(3).

(b) Each agency shall establish and publish procedures under which any of the agency actions listed in paragraph (a) above may be appealed to the head of the agency or designee. Review at this level shall consider both the factual and legal basis for the action and its consistency with the policy and objectives of 35 U.S.C. 200-206 and this subpart.

(c) Appeals procedures established under paragraph (b) above shall include administrative due process procedures and standards for fact finding at least comparable to those set forth in Part 13e-g of OMB Circular A-124 whenever there is a dispute as to the factual basis for an agency request for a conveyance of title under 27.302(d)(1)(i) through (v) including any dispute as to whether or not an invention is a subject invention.

(d) To the extent that any of the actions described in paragraph (a) above are subject to appeal under the Contract Disputes Act, the procedures under that Act will satisfy the requirements of paragraphs (b) and (c) above.

27.305 Administration of patent rights clauses.

27.305-1 Patent rights follow-up.

(a) It is important that the Government and the contractor know and exercise their rights in inventions conceived or first actually reduced to practice in the course of or under Government contracts in order to ensure their expeditious availability to the public and to enable the Government, the contractor, and the public to avoid unnecessary payment of royalties and to defend themselves against claims and suits for patent infringement. To attain these ends, contracts having a patent rights clause should be so administered that—

(1) Inventions are identified, disclosed, and reported as required by the contract, and elections are made;

(2) The rights of the Government in such inventions are established;

(3) Where patent protection is appropriate, patent applications are timely filed and prosecuted by contractors or by the Government;

(4) The rights of the Government in filed patent applications are documented by formal instruments such as licenses or assignments; and

(5) Expeditious commercial utilization of such inventions is achieved.

(b) If a subject invention is made under funding agreements of more than one agency, at the request of the contractor or on their own initiative, the agencies shall designate one agency as responsible for administration of the rights of the Government in the invention.

27.305-2 Follow-up by contractor.

(a) *Contractor procedures.* If required by the applicable clause, the contractor shall establish and maintain effective procedures to ensure its patent rights obligations are met and that subject inventions are timely identified and disclosed, and when appropriate, patent applications are filed.

(b) *Contractor reports.* Contractors shall submit all reports required by the patent rights clause to the contracting officer or other representative designated for such purpose in the contract. Agencies may, in their implementing instructions, provide specific forms for use on an optional basis for such reporting.

27.305-3 Follow-up by Government.

(a) Agencies shall maintain appropriate follow-up procedures to protect the Government's interest and to check that subject inventions are identified and disclosed, and when appropriate, patent applications are filed, and that the Government's rights therein are established and protected. Follow-up activities for contracts that include a clause referenced in 27.304-2 shall be coordinated with the appropriate agency.

(b) The contracting officer administering the contract (or other representative specifically designated in the contract for such purpose) is responsible for receiving invention disclosures, reports, confirmatory instruments, notices, requests, and other documents and information submitted by the contractor pursuant to a patent rights clause. If the contractor fails to furnish documents or information as called for by the clause within the time required, the contracting officer shall promptly request the contractor to supply the required documents or information and, if the failure persists, shall take appropriate action to secure compliance. Invention disclosures, reports, confirmatory instruments, notices, requests, and other documents and information relating to patent rights clauses shall be promptly furnished by the contracting officer administering the contract (or other designee) to the procuring agency or contracting activity for which the procurement was made for appropriate action.

(c) Contracting activities shall establish appropriate procedures to detect and correct failures by the contractor to comply with its obligations under the patent rights clauses, such as failures to disclose and report subject inventions, both during and after contract performance. Ordinarily a contractor should have written instructions for its employees covering compliance with these contract obligations. Government effort to review and correct contractor compliance with its patent rights obligations should be directed primarily towards contracts that, because of the nature of the research, development, or experimental work or the large dollar amount spent on such work, are more likely to result in subject inventions significant in number or quality, and towards contracts when there is reason to believe the contractors may not be complying with their contractual obligations. Other contracts may be reviewed using a spot-check method, as feasible. Appropriate follow-up procedures and activities may include the investigation or review of selected contracts or contractors by those qualified in patent and technical matters

to detect failures to comply with contract obligations.

(d) Follow-up activities should include, where appropriate, use of Government patent personnel—

(1) To interview agency technical personnel to identify novel developments made in contracts;

(2) To review technical reports submitted by contractors with cognizant agency technical personnel;

(3) To check the Official Gazette of the United States Patent and Trademark Office and other sources for patents issued to the contractor in fields related to its Government contracts; and

(4) If additional information is required, to have cognizant Government personnel interview contractor personnel regarding work under the contract involved, observe the work on site, and inspect laboratory notebooks and other records of the contractor related to work under the contract.

(e) If it is determined that a contractor or subcontractor does not have a clear understanding of the rights and obligations of the parties under a patent rights clause, or that its procedures for complying with the clause are deficient, a post-award orientation conference or letter should ordinarily be used to explain these rights and obligations (see Subpart 42.5). When a contractor fails to establish, maintain, or follow effective procedures for identifying, disclosing, and, when appropriate, filing patent applications on inventions (if such procedures are required by the patent rights clause), or after appropriate notice fails to correct any deficiency, the contracting officer may require the contractor to make available for examination books, records, and documents relating to the contractor's inventions in the same field of technology as the contract effort to enable a determination of whether there are such inventions and may invoke the withholding of payments provision (if any) of the clause. The withholding of payments provision (if any) of the patent rights clause or of any other contract clause may also be invoked if the contractor fails to disclose a subject invention. Significant or repeated failures by a contractor to comply with the patent rights obligation in its contracts shall be documented and made a part of the general file (see 4.801(c)(3)).

27.305-4 Conveyance of invention rights acquired by the Government.

(a) Agencies are responsible for those procedures necessary to protect the Government's interest in subject inventions. When the Government acquires the entire right, title, and interest in an invention by contract, this is normally accomplished by an assignment either from each inventor to the contractor and from the contractor to the Government, or from the inventor to the Government with the consent of the contractor, so that the chain of title from the inventor to the Government is clearly established. When the Government's rights are limited to a license, there should be a confirmatory instrument to that effect.

(b) The form of conveyance of title from the inventor to the contractor must be legally sufficient to convey the rights the contractor is required to convey to the Government. Agencies may, by supplemental instructions, develop suitable assignments, licenses, and other papers evidencing any rights of the Government in patents or patent applications, including such instruments as may be required to be recorded in the Statutory Register or documented in the Government Register maintained by the U.S. Patent and Trademark Office pursuant to Executive Order 9424, February 18, 1944.

27.305-5 Publication or release of invention disclosures.

(a) In accordance with the policy at 27.302(i), to protect their mutual interests, contractors and the Government should cooperate in deferring the publication or release of invention disclosures until the filing of the first patent application, and use their best efforts to achieve prompt filing when publication or release may be imminent. The Government will, on its part and to the extent authorized by 35 U.S.C. 205, withhold from disclosure to the public any invention disclosures reported under the patent rights clauses of 52.227-11, 52.227-12, or 52.227-13 for a reasonable time in order for patent applications to be filed. The policy in 27.302(i) regarding protection of confidentiality shall be followed.

(b) The Government will also use reasonable efforts to withhold from disclosure to the public for a reasonable time other information disclosing a reported invention included in any data delivered pursuant to contract requirements; *provided*, that the contractor notifies the agency as to the identity of the data and the invention to which it relates at the time of delivery of the data. Such notification must be to both the contracting officer and any patent representative to which the invention is reported, if other than the contracting officer.

27.306 Licensing background patent rights to third parties.

(a) A contract with a small business firm or nonprofit organization will not contain a provision allowing the Government to require the licensing to third parties of inventions owned by the contractor that are not subject inventions unless such provision has been approved by the agency head and written justification has been signed by the agency head. Any such provision will clearly state whether the licensing may be required in connection with the practice of a subject invention, a specifically identified work object, or both. The agency head may not delegate the authority to approve such provisions or to sign justifications required for such provisions.

(b) The Government will not require the licensing of third parties under any such provision unless the agency head determines that the use of the invention by others is necessary for the practice of a subject invention or for the use of a work object of the contract and that such action is necessary to achieve the practical application of the subject invention or work object. Any such determination will be on the record after an opportunity for a hearing, and the contractor shall be given notification of the determination by certified or registered mail. The notification shall include a statement that any action commenced for judicial review of such determination must be brought by the contractor within 60 days after the notification.

SUBPART 27.4—RIGHTS IN DATA AND COPYRIGHTS

27.401 General.

It is necessary for Government departments and agencies, in order to carry out their missions and programs, to acquire or obtain access to many kinds of data developed under or used in performing their contracts. Such data are required in order to obtain competition among suppliers; to meet acquisition needs; to ensure logistic support; to fulfill certain responsibilities for disseminating and publishing the results of their activities; to ensure appropriate use of the results of research, development, and demonstration activities; and to meet other programmatic and statutory requirements. At the same time, the Government recognizes that its contractors may have a property right or other valid economic interest in certain data resulting from private investment, and that the protection from unauthorized use and disclosure of this

(d) When filing any patent application coming within the scope of this clause, the Contractor shall observe all applicable security regulations covering the transmission of classified subject matter and shall promptly furnish to the Contracting Officer the serial number, filing date, and name of the country of any such application. When transmitting the application to the United States Patent Office, the Contractor shall by separate letter identify by agency and number the contract or contracts that require security classification markings to be placed on the application.

(e) The Contractor agrees to include, and require the inclusion of, this clause in all subcontracts at any tier that cover or are likely to cover classified subject matter.

(End of clause) (R 7-104.8 1969 DEC)

52.227-11 Patent Rights—Retention by the Contractor (Short Form).

As prescribed at 27.303(a), insert the following clause:

PATENT RIGHTS—RETENTION BY THE CONTRACTOR (SHORT FORM) (APR 1984)

(a) *Definitions.*

"Invention" means any invention or discovery which is or may be patentable or otherwise protectable under Title 35 of the United States Code.

"Subject invention" means any invention of the Contractor conceived or first actually reduced to practice in the performance of work under this contract.

"Practical application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

"Made", when used in relation to any invention, means the conception or first actual reduction to practice of such invention.

"Small business firm" means a small domestic business concern as defined at Section 2 of Public Law 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this clause, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.3-8 and 13 CFR 121.3-12, respectively, will be used.

"Nonprofit organization" means a domestic university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any domestic nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

(b) *Allocation of principal rights.* The Contractor may retain the entire right, title, and interest throughout the world to each subject invention subject to the provisions of this clause and 35 U.S.C. 203. With respect to any subject invention in which the Contractor retains title, the Federal Government shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject invention throughout the world.

(c) *Invention disclosure, election of title, and filing of patent applications by Contractor.*

(1) The Contractor shall disclose each subject invention to the Contracting Officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters. The disclosure to the Contracting Officer shall be in the form of a written report and shall identify the contract under which the invention was made and the inventor(s). It shall be sufficiently complete in technical detail to convey a clear understanding, to the extent known at the time of the disclosure, of the nature, purpose, operation, and physical, chemical, biological, or electrical characteristics of the invention. The disclosure shall also identify any publication, on sale, or public use of the invention and whether a manuscript describing the invention has been submitted for publication and, if so, whether it has been accepted for publication at the time of disclosure. In addition, after disclosure to the Contracting Officer, the Contractor shall promptly notify the Contracting Officer of the acceptance of any manuscript describing the invention for publication or of any on sale or public use planned by the Contractor.

(2) The Contractor shall elect in writing whether or not to retain title to any such invention by notifying the Federal agency within 12 months of disclosure; *provided*, that in any case where publication, on sale, or public use has initiated the 1-year statutory period wherein valid patent protection can still be obtained in the United States, the period of election of title may be shortened by the agency to a date that is no more than 60 days prior to the end of the statutory period.

(3) The Contractor shall file its initial patent application on an elected invention within 2 years after election or, if earlier, prior to the end of any statutory period wherein valid patent protection can be obtained in the United States after a publication, on sale, or public use. The Contractor will file patent applications in additional countries within either 10 months of the corresponding initial patent application or 6 months from the date permission is granted by the Commissioner of Patents and Trademarks to file foreign patent applications where such filing has been prohibited by a Secrecy Order.

(4) Requests for extension of the time for disclosure to the Contracting Officer, election, and filing may, at the discretion of the funding Federal agency, be granted.

(d) *Conditions when the Government may obtain title.* The Contractor shall convey to the Federal agency, upon written request, title to any subject invention—

(1) If the Contractor fails to disclose or elect the subject invention within the times specified in paragraph (c) above, or elects not to retain title (the agency may only request title within 60 days after learning of the Contractor's failure to report or elect within the specified times);

(2) In those countries in which the Contractor fails to file patent applications within the times specified in paragraph (c) above; *provided*, however, that if the Contractor has filed a patent application in a country after the times specified in paragraph (c) above, but prior to its receipt of the written request of the Federal agency, the Contractor shall continue to retain title in that country; or

(3) In any country in which the Contractor decides not to continue the prosecution of any application for, to pay the maintenance fees on, or defend in reexamination or opposition proceeding on, a patent on a subject invention.

(e) *Minimum rights to contractor.* (1) The Contractor shall retain a nonexclusive, royalty-free license throughout the world in each subject invention to which the Government obtains title except if the Contractor fails to disclose the subject invention within the times specified in paragraph (c) above. The Contractor's license extends to its domestic subsidiaries and affiliates, if any, within the corporate structure of which the Contractor is a part and includes the right to grant sublicenses of the same scope to the extent the Contractor was legally obligated to do so at the time the contract was awarded. The license is transferable only with the approval of

the funding Federal agency except when transferred to the successor of that part of the Contractor's business to which the invention pertains.

(2) The Contractor's domestic license may be revoked or modified by the funding Federal agency to the extent necessary to achieve expeditious practical application of the subject invention pursuant to an application for an exclusive license submitted in accordance with applicable provisions in the Federal Property Management Regulations and agency licensing regulations (if any). This license shall not be revoked in that field of use or the geographical areas in which the Contractor has achieved practical application and continues to make the benefits of the invention reasonably accessible to the public. The license in any foreign country may be revoked or modified at the discretion of the funding Federal agency to the extent the Contractor, its licensees, or its domestic subsidiaries or affiliates have failed to achieve practical application in that foreign country.

(3) Before revocation or modification of the license, the funding Federal agency shall furnish the Contractor a written notice of its intention to revoke or modify the license, and the Contractor shall be allowed 30 days (or such other time as may be authorized by the funding Federal agency for good cause shown by the Contractor) after the notice to show cause why the license should not be revoked or modified. The Contractor has the right to appeal, in accordance with applicable agency licensing regulations (if any) and the Federal Property Management Regulations concerning the licensing of Government-owned inventions, any decision concerning the revocation or modification of its license.

(f) *Contractor action to protect the Government's interest.* (1) The Contractor agrees to execute or to have executed and promptly deliver to the Federal agency all instruments necessary to (i) establish or confirm the rights the Government has throughout the world in those subject inventions to which the Contractor elects to retain title, and (ii) convey title to the Federal agency when requested under paragraph (d) above, and to enable the Government to obtain patent protection throughout the world in that subject invention.

(2) The Contractor agrees to require, by written agreement, its employees, other than clerical and nontechnical employees, to disclose promptly in writing to personnel identified as responsible for the administration of patent matters and in a format suggested by the Contractor each subject invention made under contract in order that the Contractor can comply with the disclosure provisions of paragraph (c) above, and to execute all papers necessary to file patent applications on subject inventions and to establish the Government's rights in the subject inventions. This disclosure format should require, as a minimum, the information required by subparagraph (c)(1) above. The Contractor shall instruct such employees through employee agreements or other suitable educational programs on the importance of reporting inventions in sufficient time to permit the filing of patent applications prior to U.S. or foreign statutory bars.

(3) The Contractor shall notify the Federal agency of any decision not to continue the prosecution of a patent application, pay maintenance fees, or defend in a reexamination or opposition proceeding on a patent, in any country, not less than 30 days before the expiration of the response period required by the relevant patent office.

(4) The Contractor agrees to include, within the specification of any United States patent application and any patent issuing thereon covering a subject invention, the following statement: "This invention was made with Government support under (identify the contract) awarded by (identify the Federal agency). The Government has certain rights in this invention."

(g) *Subcontracts.* (1) The Contractor shall incude this clause (52.227-11 of the Federal Acquisition Regulation (FAR)), suitably modified to identify the parties, in all subcontracts, regardless of tier, for experimental, developmental, or research work to be performed by a small business firm or nonprofit organization. The subcontractor shall retain all rights provided for the Contractor in this clause, and the Contractor shall not, as part of the consideration for awarding the subcontract, obtain rights in the subcontractor's subject inventions.

(2) In the case of subcontracts, at any tier, when the prime award with the Federal agency was a contract (but not a grant or cooperative agreement), the agency, subcontractor, and the Contractor agree that the mutual obligations of the parties created by this clause constitute a contract between the subcontractor and the Federal agency with respect to those matters covered by this clause.

(h) *Reporting utilization of subject inventions.* The Contractor agrees to submit on request periodic reports no more frequently than annually on the utilization of a subject invention or on efforts at obtaining such utilization that are being made by the Contractor or its licensees or assignees. Such reports shall include information regarding the status of development, date of first commercial sale or use, gross royalties received by the Contractor, and such other data and information as the agency may reasonably specify. The Contractor also agrees to provide additional reports as may be requested by the agency in connection with any march-in proceedings undertaken by the agency in accordance with paragraph (j) of this clause. To the extent data or information supplied under this paragraph is considered by the Contractor, its licensee, or assignee to be privileged and confidential and is so marked, the agency agrees that, to the extent permitted by law, it shall not disclose such information to persons outside the Government.

(i) *Preference for United States industry.* Notwithstanding any other provision of this clause, the Contractor agrees that neither it nor any assignee will grant to any person the exclusive right to use or sell any subject invention in the United States unless such person agrees that any products embodying the subject invention will be manufactured substantially in the United States. However, in individual cases, the requirement for such an agreement may be waived by the Federal agency upon a showing by the Contractor or its assignee that reasonable but unsuccessful efforts have been made to grant licenses on similar terms to potential licensees that would be likely to manufacture substantially in the United States or that under the circumstances domestic manufacture is not commercially feasible.

(j) *March-in rights.* (1) The Contractor agrees that with respect to any subject invention in which it has acquired title, the Federal agency has the right in accordance with the procedures in FAR 27.304-1(g) to require the Contractor, an assignee, or exclusive licensee of a subject invention to grant a nonexclusive, partially exclusive, or exclusive license in any field of use to a responsible applicant or applicants, upon terms that are reasonable under the circumstances, and if the Contractor, assignee, or exclusive licensee refuses such a request, the Federal agency has the right to grant such a license itself if the Federal agency determines that—

(i) Such action is necessary because the Contractor or assignee has not taken, or is not expected to take within a reasonable time, effective steps to achieve practical application of the subject invention in such field of use;

(ii) Such action is necessary to alleviate health or safety needs which are not reasonably satisfied by the Contractor, assignee, or their licensees;

(iii) Such action is necessary to meet requirements for public use specified by Federal regulations and such requirements are not reasonably satisfied by the Contractor, assignee, or licensees; or

(iv) Such action is necessary because the agreement required by paragraph (i) of this clause has not been obtained or waived or because a licensee of the exclusive right to use or sell any subject invention in the United States is in breach of such agreement.

(k) *Special provisions for contracts with nonprofit organizations.* If the Contractor is a nonprofit organization, it agrees that—

(1) Rights to a subject invention in the United States may not be assigned without the approval of the Federal agency, except where such assignment is made to an organization which has as one of its primary functions the management of inventions and which is not, itself, engaged in or does not hold a substantial interest in other organizations engaged in the manufacture or sale of products or the use of processes that might utilize the invention or be in competition with embodiments of the invention (provided, that such assignee will be subject to the same provisions as the Contractor);

(2) The Contractor may not grant exclusive licenses under United States patents or patent applications in subject inventions to persons other than small business firms for a period in excess of the earlier of—

(i) Five years from first commercial sale or use of the invention; or

(ii) Eight years from the date of the exclusive license excepting that time before regulatory agencies necessary to obtain premarket clearance, unless on a case-by-case basis, the Federal agency approves a longer exclusive license. If exclusive field-of-use licenses are granted, commercial sale or use in one field of use will not be deemed commercial sale or use as to other fields of use, and a first commercial sale or use with respect to a product of the invention will not be deemed to end the exclusive period to different subsequent products covered by the invention;

(3) The Contractor shall share royalties collected on a subject invention with the inventor; and

(4) The balance of any royalties or income earned by the Contractor with respect to subject inventions, after payment of expenses (including payments to inventors) incidental to the administration of subject inventions, will be utilized for the support of scientific research or education.

(l) *Communications.* Reserved.

(End of clause) (R 7-302.23(h) 1981 JUL)

Alternate I (APR 1984). Add the following sentence at the end of paragraph (b) of the basic clause:

The license shall include the right of the Government to sublicense foreign governments and international organizations pursuant to the following treaties or international agreements: .....* or pursuant to any future treaties or agreements with foreign governments or international organizations.

[*Contracting Officer complete with the names of applicable existing treaties or international agreements. The above language is not intended to apply to treaties or agreements that are in effect on the date of the award but are not listed.]

(R 7-302.23(b) 1981 JUL)

52.227-12 Patent Rights—Retention by the Contractor (Long Form)

As prescribed at 27.303(b), insert the following clause:

PATENT RIGHTS—RETENTION BY THE CONTRACTOR (LONG FORM) (APR 1984)

(a) *Definitions.*

"Invention" means any invention or discovery which is or may be patentable or otherwise protectable under Title 35 of the United States Code.

"Subject invention" means any invention of the Contractor conceived or first actually reduced to practice in the performance of work under this contract.

"Practical application" means to manufacture in the case of a composition or product, to practice in the case of a process or method, or to operate in the case of a machine or system; and, in each case, under such conditions as to establish that the invention is being utilized and that its benefits are, to the extent permitted by law or Government regulations, available to the public on reasonable terms.

"Made" when used in relation to any invention means the conception or first actual reduction to practice of such invention.

"Small business firm" means a domestic small business concern as defined at Section 2 of Public Law 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration. For the purpose of this clause, the size standards for small business concerns involved in Government procurement and subcontracting at 13 CFR 121.3-8 and 13 CFR 121.3-12, respectively, will be used.

"Nonprofit organization" means a domestic university or other institution of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any domestic nonprofit scientific or educational organization qualified under a state nonprofit organization statute.

(b) *Allocation of principal rights.* The Contractor may elect to retain the entire right, title, and interest throughout the world to each subject invention subject to the provisions of this clause and 35 U.S.C. 203. With respect to any subject invention in which the Contractor elects to retain title, the Federal Government shall have a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced for or on behalf of the United States the subject invention throughout the world.

(c) *Invention disclosure, election of title, and filing of patent applications by Contractor.* (1) The Contractor shall disclose each subject invention to the Contracting Officer within 2 months after the inventor discloses it in writing to Contractor personnel responsible for patent matters or within 6 months after the Contractor becomes aware that a subject invention has been made, whichever is earlier. The disclosure to the Contracting Officer shall be in the form of a written report and shall identify the contract under which the invention was made and the inventor(s). It shall be sufficiently complete in technical detail to convey a clear understanding, to the extent known at the time of the disclosure, of the nature, purpose, operation, and physical, chemical, biological, or electrical characteristics of the invention. The disclosure shall also identify any publication, on sale, or public use of the invention and whether a manuscript describing the invention has been submitted for publication and, if so, whether it has been accepted for publication at the time of disclosure. In addition, after disclosure to the Contracting Officer, the Contractor shall promptly notify the Contracting Officer of the acceptance of any manuscript describing the invention for publication or of any on sale or public use planned by the Contractor.

(2) The Contractor shall elect in writing whether or not to retain title to any such invention by notifying the Federal agency at the time of disclosure or within 8 months of disclosure, as to those countries (including the United

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

UNIVERSITY PATENT POLICIES AND PRACTICES

Workshop Materials - NCURA Intellectual Property Series - 1984

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Introduction to

UNIVERSTIY PATENT POLICIES AND PRACTICES

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

UNIVERSITY PATENT POLICIES AND PRACTICES

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Appendices

1. SURVEY OF INSTITUTIONAL PATENT POLICIES AND ADMINISTRATION

1. INTRODUCTION

A number of professional organizations and groups have prepared materials relating to university patent policies and practices.

One useful source is "Patents at Colleges and Universities," Chapter 2:6:1 in the Administrative Service/Supplement published by the National Association of College and University Business Officers. First issued in March 1978, that chapter is currently being revised by the Committee on Patents, Copyrights and Rights in Data of the Council on Governmental Relations (COGR) and may be available for distribution this fall. In the meantime, much of the earlier version is still relevant as it relates to the elements of university policies and to patent administration and is quoted in Parts 2, 3, 4 and 6 of this paper, with permission of NACUBO, the copyright holder.

Similarly, "Survey of Institutional Patent Policies and Patent Administration," Chapter 2:6:2 of the same NACUBO publication, although issued also in March 1978, still provides a feeling for the wide variety in institutional patent policies, organization and administration. It is, therefore, included as Appendix 1 to this paper. We understand that the survey, conducted by the Society of University Patent Administrators, is currently being conducted again by SUPA. When available, hopefully this fall, it will provide a useful comparison with the 1978 results.

2. PATENT POLICY OBJECTIVES

In the paper entitled "Patents and Patent Law" in this NCURA series, we noted the Constitutional origin of the United States patent system, and in the paper entitled "Patent Rights under Government Contracts" we noted that the objectives of 35 U.S.C. Chaper 38 include the greater utilization, commercialization and public availability of inventions and increased collaboration between commercial firms and nonprofit organizations.

In pursuing these broad constitutional and legislative goals, colleges and universities frequently state their patent policy objectives in terms such as those set forth in NACUBO 2:6:1:

"1. To facilitate the transfer of technology and the utilization of findings of scientific research in order to provide maximum benefit to the public therefrom.

"2. To encourage research, scholarship, and a spirit of inquiry, thereby generating new knowledge.

"3. To provide machinery by which the significance of discoveries may be determined so that the commercially meritorious may be brought to the point of public utilization.

"4. To assist in an equitable disposition of interests in inventions among the inventor, the institution, and, when applicable, a sponsor.

"5. To provide individual incentives to inventors in the form of personal development, professional recognition,and financial compensation.

"6. To assist in the fulfillment of the terms of research grants and contracts.

"7. To safeguard the intellectual property represented by worthwhile inventions so that it may receive adequate patent protection.

"8. To facilitate the development of institutional patent agreements with the federal government."

With the passage of Public Law 96-517 and Chapter 38, which eliminates the need for institutional patent agreements, and with the growing interaction of universities and industrial organizations, the following objectives are more likely to be substituted for 8. above:

To comply with applicable federal law and regulations when the institution accepts federal funds for research.

To facilitate the development of research agreements with industrial sponsors.

3. ELEMENTS OF AN INSTITUTIONAL PATENT POLICY

In order to deal with discoveries that may have patentable significance, an institution should have a documented patent policy approved by its governing board, which defines the rights and obligations of the institution, the inventor, and, when applicable, research sponsors. Such a policy should contain the elements described below in the language of NACUBO 2:6:1.

ELEMENTS OF AN INSTITUTIONAL PATENT POLICY (NACUBO)

An institution seeking to establish or clarify its position regarding rights to and disposition of patentable inventons should develop a statement of patent policy. The statement should be broad enough to encompass all foreseeable patent situations, yet specific enough to allow administraton of the policy without frequent recourse to policy deliberations by an advisory committee.

The statement should briefly define the administrative structure for processing a patentable discovery and it should be directly and succinctly presented for clear understanding by lay persons in the field. The basic purpose of a patent policy is to define the rights and obligations of both the inventor and the institution as regards patent matters. To the extent that policies on consulting deal with patents, it is advisable to take them into account when formulating a patent policy.

Some institutional patent policies are incorporated into patent manuals that provide the reader with a brief orientation on patent matters. These publications can be helpful to neophyte inventors, but they should be prepared such that the institutional policy is clearly distinguishable from general instructional materials.

The following topics typically are found in institutional patent policies:

1. Preamble.
2. Applicability of the policy.
3. Establishment of the inventor commitment.
4. Rights of the parties.
5. Income-sharing arrangements.
6. Administrative arrangements.

Preamble

Although optional, this section is recommended. It should relate the basic purposes of the institution, its obligations to the public, and the scholarly aims of its faculty to the institution's interest in patents and ways in which patents serve these ends. The preamble should be kept short and to the point and establish a sound foundation for what is to follow.

Applicability of the Policy

This section defines research situations, sources of funds, all categories of persons who may invent (that is, faculty, staff, and student), activities in which such persons are engaged, and any combinations of these elements that would bring an inventor into the scope of, or exempt him or her from, provisions of the policy. Educational institutions do not usually lay claim to all inventive concepts generated by their employees or students. Rather, they limit themselves to those that arise as a result of employment relationships, or use by the researcher of institution resources, facilities or information.

Establishment of the Inventor Commitment

Once an institution determines the criteria for applying the policy to individuals, its personnel may be required to dispose of inventions as determined by the institution in one of several ways (listed in generally decreasing order of enforceability):

1. By a formal inventor agreement - a legally enforceable contractual commitment by a person to dispose of inventions as determined by the institution. The agreement becomes a standard form for the institution and should be drafted by an attorney to ensure its enforceability. It is best executed by the individual when he or she assumes employment. [Note: The patent clause at FAR 52.227-11, paragraph (f), "Contractor Action to Protect the Government Interest," requires a written agreement with employees. See Appendix 2 to Unit 2 in this NCURA series, "Patent Rights under Government Contracts," at Appendix 2, Federal Register page 12990.]

2. By a state statute which stipulates that inventions made in state institutions or by state employees be disposed of in a predetermined manner.

3. By a person giving his or her written assent to the stated patent policies of the institution, which policies pronounce an obligation by the individual with respect to inventions.

4. By a stated patent policy containing a patent commitment which is established by the governing board and brought to the attention of individuals, but to which such persons are not required to give their personal formal assent.

5. By the presence of a policy allowing the individual to dispose of inventions as determined by the institution or to retain title, at his or her option.

To allow an institution conducting sponsored research to fulfill its contractual obligations, it is essential to have for every person engaged in such research a valid, binding commitment to assign inventions.

Rights of the Parties

The policy should specify the rights that the institution, the inventor, and sometimes outside sponsors have in the invention. The institution usually receives a valid, binding assignment of title to the patent application together with a commitment by the inventor to cooperate in executing legal documents, reviewing patent prosecution papers, and in some cases, assisting in the development or marketing of the patent.

The inventor is entitled to receive from the institution a clear statement of his or her rights and share of income, and the institution's plans for bringing the invention into public use, including a contingency for reassignment to the inventor.

Sponsor's interests in these situations are usually represented by the institution based on the terms of the research agreement. Sponsor equities in patents must be scrupulously observed by the institution to permit it to perform and maintain its contractual obligations.

Income-Sharing Arrangement

Educational institutions that accept assignment of patents from inventors customarily share royalty income with them. The inventor's share generally ranges from 15% to 50% of net income, although there are a few policies that authorize income outside these limits. Some institutions use sliding scales of income-sharing between these limits with a greater percentage going to the inventor from the early receipts and the rate of sharing declining as the amount of royalties increases.

Most royalty-sharing arragements are predetermined, that is, the inventor cannot negotiate a higher rate of sharing than stipulated in the institutional policy. Predetermined sharing rates have the advantage that it is unnecessary to pass judgment on the relative worth of each invention. They are easier to administer and usually reward the inventor equitably because a valuable invention's true merit is reflectd in the greater total royalty revenues it generates, a portion of which inures to the benefit of the inventor. Where several individuals collaborate on a patentable invention the inventor's income share is divided among them in portions agreeable among themselves (including co-developer's who may not legally be inventors).

Administrative Arrangements Defined by Policy.

Patent policies usually specify that patent activities be placed under the administrative cognizance of an institutional patent committee appointed by the governing board, the president, or the faculty senate with a majority of the individuals on the committee representing scientific or technical disciplines. It is not uncommon for a dean, a vice president, or even the president to serve as chairman. This committee often has the responsibility for recommending or establilshing patent policy, adjudicating disputes, determining which inventions shall be the subject of patent applications, and overseeing the administration of patent matters within the institution.

4. ADMINISTRATION AND DEVELOPMENT OF INVENTIONS

In addition to a patent policy, an institution needs an administrative focal point to deal with inventions and guide them through the various steps involved in obtaining patent protection and developing their commercial potential. This is discussed below in the language of NACUBO 2:6:1.

ADMINISTRATION AND DEVELOPMENT OF INVENTIONS (NACUBO)

The provisions of the institutional patent policy usually determine the make-up of the administrative organization for patents. Typically found at the top of the structure is the patent committee described above (under "Administrative Arrangements Defined by Policy" in the preceding section). The size of the administrative organization below this committee will vary, depending in part on the amount of research resulting in patents at the institution and on whether or not the institution assumes its own patent development and marketing responsibilities or delegates them to another organization.

Serving the committee as its operating arm on a part- or full-time basis is the institution's "focal point" on patents, an administrator usually drawn from the office of research administration, the legal department, or the business office. This administrator need not be a patent or general attorney but must have a thorough understanding of institutional patent policyand enough background in patent procedures and patent law to handle procedural and policy problems arising in the management of patents.

In a large operation, the patent administrator and any assistants may be a part of the institution's administrative group and often will work full time on patent-related matters. In a modest institutional patent operation, this individual may come from one of the basic science departments and spend only a few hours per month on duties related to patents. Regardless of the size of the patent operations, there should be at least one person who understands the essential requirements for handling patentable information (which is also perishable). This should insure that valuable property rights are not lost to the institution by premature disclosure, publication, or public use prior to filing a patent application or to releasing the invention to an affiliated patent development group.

Development and Marketing

The development and marketing of inventions typically occurs in one of three ways: in-house, by an institution-affiliated foundation, or by a patent management organization.

In-house. In this case, the institution controls and performs the invention evaluation that precedes the decision to patent, the filing of patent applications, the demonstration of the invention's feasibility, and the licensing (not necessarily in this order). This option is initially more costly, because it requires an early outlay for patent application costs and the overhead costs of patent administrative services. However, if sizable royalties are earned, this approach may be the most advantageous overall.

Institution-affiliated foundation. This option can have the advantages of better availability of funds to carry on the development of inventions (a speculative activity) and greater freedom to employ commercial methods to develop and promote the uses of the inventions. Assuming equal capabilities to develop inventions, the presence of a foundation may result in less income for the institution because of the foundation's expectation of sharing income. Both the in-house management and the institution-affiliated foundation management of patents allow the inventor to work closely with the unit that is promoting the invention. The inventor's ready assistance and background often are crucial to getting the invention covered by a patent and "off the ground" as a commercial success.

A patent management organization. Patent development and marketing by one of these organizations has some distinct advantages: it permits an institution to be active in patents with a minimum financial outlay and it allows considerable legal, marketing, and patent management expertise to be tapped at no immediate cost to the institution. The chief disadvantage in this arrangement is, of course, that a substantial portion of any royalties earned is shared with the patent management group as compensation for services. Also, because of the large number of inventions handled by organizations of this type and the geographical limitations involved, it is possible that this arrangement will diminish the valuable personal input of the inventor in development and marketing efforts.

These three routes of invention development need not be mutually exclusive for an entire patent program. Many institutions utilize more than one, depending on the type of invention reported and the location of the various capabilities needed to develop it.

It is advisable for an institution involved with patents to have available the services of a patent attorney to answer questions, interpret the law, prepare, file and prosecute patent applications as the need arises, and serve as a representative during patent-related negotiations. Because of the diversity of complex patent subject matter generated in colleges and universities, it is desirable that the attorney be affiliated with a firm that includes individuals with a wide variety of technical backgrounds. The American Patent Law Association can be of assistance in making a selection.

5. INVENTIONS UNDER SPONSORED RESEARCH PROGRAMS

Issues relating to patents and publications are frequently the most difficult to resolve in negotiations with private research sponsors, particularly industrial organizations. For that reason, it is important that institutional policy is clear on the various options that are likely to arise, or that there is a mechanism for resolving the issues without undue delay. Because the issues are so varied, the question of institutional policy under research agreements with industrial and other private sponsors is beyond the scope of this paper and is dealt with in Unit 4 of this series, "Patent Clauses in Industrial Research Agreements."

Research agreements funded in whole or in part with Federal funds are subject to the provisions of Public Law 96-517, as implemented by OMB Circular A-124, and the Federal Acquisition Regulations (FAR) in Subpart 27.3 and the standard clause at FAR 52.227-11. The obligations of a university contractor under these regulations is discussed in detail in Unit 2 of this series, "Patent Rights under Government Contracts." However, since university patent policies and procedures must conform to certain requirements set forth in these regulations, it is appropriate to summarize them here since it is important to be familiar with these in establishing institutional patent policies and administrative practices.

Obligations under Federal Sponsorship

The obligations of university contractors set forth in the standard clause at FAR 52.227-11 (which is reproduced in Appendix 2 of Unit 2 of this series) include the following.

FAR 52.227-11

(c) Invention disclosure, election of title, and filing of patent applications by the contractor

- (1) Disclose subject inventions and any publications, sale or use that may create a patent bar
- (2) Elect whether or not to retain title
- (3) File patent application on a timely basis

(d) Conditions when the Government may obtain title.

Convey title to the agency when required and requested

(f) Contractor's action to protect the Government's interest

- (1) Execute instruments to confirm government rights and convey title per (d) above

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(2) Identify personnel responsible for the administration of patent matters, require employees by written agreement to promptly disclose inventions, and instruct employees on the importance of disclosing inventions
(3) Notify agency of decision not to prosecute, maintain or defend a patent application
(4) Include statement acknowledging Government support in patent applications and patents issuing

(g) Subcontracts.

Include the appropriate patent rights clause in subcontracts.

(i) Preference for United States industry

Do not without agency approval, grant exclusive licenses unless the licensee agrees that products embodying the invention will be manufactured substantially in the United States.

(k) Special provisions for contracts with nonprofit organizations

(1) Limits right to assign
(2) Limits the term of exclusive licenses to other than small business firms
(3) Requires sharing or royalties with inventors
(4) Requiires that the balance of royalties after after certain expenses be utilized for the support of scientific research and education

6. INVENTION DISCLOSURES

Of critical importance to the administration of a patent program, and to adhering to obligations to research sponsors, is the prompt and proper disclosure of inventions. The importance of the disclosure is set forth in the following section in the language of NACUBO 2:6:1.

Invention Disclosures (NACUBO)

An invention disclosure in this context is a complete description of an invention written by the inventor to report an invention to the institution or a sponsor. Along with the original laboratory notebooks and records it is one of the most important documents in an institutional patent program. The invention disclosure is based on the information contained in laboratory notebooks. (See Appendix B, "Guidelines for Keeping Laboratory Records.")

It is customary for the office responsible for patents to provide a disclosure form or set of guidelines for preparing disclosures. Whichever is used, completeness is more important than format. The invention disclosure should be couched in good technical language rather than in legalistic style. If the invention becomes the basis for a patent aplication, a patent attorney can put it in language that is acceptable to the Patent Office.

The invention disclosure is valuable in several ways. Writing the disclosure helps the inventor to mentally clarify the inventive concept and, if the concept has not yet been reduced to practice, to better organize his or her thoughts concerning it. A good disclosure is essential for the technical evaluation of the invention, for an accurate assessment of its commercial feasibility, and for a determination of its patentability. In the latter case, the disclosure is often used as the descriptive information supplied to the Patent Office for making the novelty search. Its clarity and completeness strongly affect the quality of the patent search.

The invention disclosure may later be used as the basis for the preparation of the patent application. Well-prepared disclosures readily transmit the patentable idea to the patent attorney and assist in preparing an application that precisely describes the invention. The less attorney time required for this, the lower the cost to the institution. Finally, when witnessed laboratory records bearing earlier dates are not available, the invention disclosure can serve as proof of the date of conception, or at least of the earliest recording of the invention. It thus may be an important document in any controversy over which of two parties first made the invention.

Disclosures of inventions are required under the terms of federal research agreements and must be sufficiently complete and of a quality that will allow the supporting agency to evaluate and prepare a patent application in the event that the contract terms entitle it to do so. A complete and accurate invention disclosure is extremely important to patent management organizations because they are usually not located in close proximity to the inventor. These organizations must, therefore, rely heavily on the inventor's written description to assess the worth of the invention and to determine any interest in accepting it and in carrying it forward to patenting and commercial development. (A typical set of instructions for preparing invention disclosures appears as Appendix D.)

Survey of Institutional Patent Policies and Patent Administration

THE FOLLOWING DOCUMENT is based on a survey taken by the Society of University Patent Administrators in 1977. Subjects of the survey were the patent policies of universities with employees who are members of the Society. As far as can be determined, this is the first such survey since the publication in 1962 by the National Academy of Sciences—National Research Council of *University Research and Patent Policies, Practices and Procedures*. The latter document is primarily a compilation of patent policies exactly as furnished by the institutions surveyed.

The 1977 survey was undertaken because of a growing interest in patents and the perception of a need for an up-to-date survey of patent policies which would be composed of carefully prepared questions and would provide analysis of the replies. The questionnaire used in this survey is based on one that was tested at six institutions and further refined before distribution. (A copy of the questionnaire is included as Appendix A; responding institutions are listed in Appendix B.)

Forty-eight major research institutions provided information for this document. The answers to the survey questions have been tabulated and the implications of these results are discussed. It will be noted that there is a wide variety of answers to certain questions, which is a result of the differences in institutional organization and practices. In some cases there are multiple answers to one question by the same institution. In questions involving titles, where many variations are possible, the answers have been grouped by titles that are considered to be equivalent. Where only one institution has responded in a particular way to a particular question, such answers generally have been grouped as "other."

Although a number of institutions that were surveyed did not reply (a few with large patent portfolios), the information provided and analyzed should be largely representative of the general community of research universities.

1. Name of institution (see Appendix B).

2. Who authorized the institution's patent policy?

(a) Trustees, regents, or equivalent	37
(b) President, chancellor, or equivalent	5
(c) Faculty	2
(d) Other (such as state law or state agency)	4
	48

Where an institution checked more than one answer, this has been interpreted to mean that more than one body acted on the policy. In such cases, only the highest-ranked body was counted.

3. What office administers the patent policy?

Research administration office	18
Vice president or dean of research	10
Research foundation	8

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Vice president for administration	3
Patent committee	3
Patent office	3
Other	3
	48

4. To whom is the office in (3) above responsible?

Vice president, vice chancellor, provost, or similar officer	24
President	12
Trustees	3
Director of foundation	3
Dean	3
Other	3
	48

5. Is there a patent committee?

Yes	34
No	14
	48

6. What is the composition of the patent committee?

Faculty and administration	23
Faculty only	7
Faculty, administration, and students	4
	34

Note that four institutions have patent committees that include students (presumably graduate students).

7. What are the functions of the patent committee?

Formulate patent policy	22
Determine royalty distributions	16
Make decisions on patenting inventions	26
Negotiate license arrangements	2
Other	5
	71

This question received multiple answers and all functions may not have been described. For example, some patent committees may be involved in arbitration (see 16 below) but this item was mentioned only once.

8. Does the patent policy cover:

(a) Faculty	47
(b) Professional staff	47
(c) Nonprofessional staff	43
(d) Graduate students employed by institution	46
(e) Graduate students not employed by institution	25
(f) Undergraduates employed by institution	42
(g) Undergraduates not employed by institution	21

Of the institutions responding, one had not yet adopted a patent policy, which accounts for the maximum number of 47 rather than 48. The significant decrease in coverage for both graduate and undergraduate students not employed by the institution probably relates to the fact that employment (and thus the payment of salary) is used in many cases as the basis for a university claim to equity in inventions, rather than the provisions of funds or facilities (see 15 below).

9. By which of the following does the institution control the disposition of patent rights (with the understanding that a sponsor may subsequently take control)?

(a) Taking title to inventions	36
(b) Directing or approving disposition by inventors	11
(c) The voluntary referral of an invention to the institution if there is no sponsor requirement	11
	58

Eight institutions checked *both* (a) and (b), which may mean that the policy is covered by (b), but that in some cases the inventor is required or elects to give title to the institution as provided for under (a). However, two of these eight institutions also checked (c), possibly an attempt to cover both inventions in which the institution has an equity and those in which it does not (see 15 below). The remaining nine institutions in category (c) constitute a large number in which the institution exercises no control at all (unless there is a sponsor requirement).

A policy as in (b) of directing or approving disposition by inventors provides much greater flexibility than that listed in (a). Under (b), title can be directed to the institution, to a patent management firm, or to the government or another sponsor without the necessity of title first going to the institution.

10. Does the institution enter into agreements with possible inventors (see 8 above) to establish patent rights? Complete only one response:

(a) For all possible inventors	16
(b) For all possible inventors who *participate* in sponsored research	8
(c) For all possible inventors who are employed	14
(d) For all possible inventors who are employed only in sponsored research	6
(e) No agreements with anyone	4
	48

The twenty-four institutions responding affirmatively to (a) or (b) are well covered insofar as the requirements of sponsored research, particularly government-sponsored research, are concerned. Institutions covered by (c) and (d) are not fully meeting the obligations of sponsored research, since these obligations extend to all persons who participate in or perform part of the work, not only those who are employed by and paid from a grant or contract. The four institutions responding affirmatively to (e) are not in compliance unless the terms of the applicable patent policy can be held to be as legally binding as an individual agreement.

For inventions that result from research which is not sponsored, the thirty institutions designating (a) or (c) are all fairly well covered, except that (c) would not apply, for example, to a graduate student who makes an invention but is not employed by the institution. Among the other seventeen respondents there is a gap that is partly explained by the eleven who responded to 9(c) above (in which referral of an invention to the university is entirely voluntary unless there are sponsored research requirements).

11. Does the institution use, or have its administrators considered using a single agreement to cover both patents and copyrights?

Yes	13
No	35
	48

12. Are one or more patent management firms used? If so, give names.

Yes	40
No	8
	48

Research Corporation was predominant, followed at a distance by Battelle, University Patents, Inc., and others.

13. If a decision is made in the institution (not by a patent management firm) to make a patent application, who makes the decision?

Patent committee	11
Research administration office	9
Associate provost, vice president, or dean for research	9
Research foundation	4
President	3
Vice president for business or finance	2
Patent office	2
Other (such as state, governing board, inventor)	5
No answer	3
	48

14. Does the institution's patent policy require reporting by those covered by the policy (see 8 above) of:

(a) All inventions, even if there is no institutional or sponsor equity	19
(b) All inventions on which patents are applied for, even though there is no institutional or sponsor equity	5
(c) All inventions where there is some institutional or sponsor equity	19
(d) Only those inventions that must be reported to a sponsor	5
	48

Institutions that are diligent in pursuing technology transfers and public use of their inventions probably fall into group (a).

15. What is the basis of the institution's claim for institutional equity in an invention? That is, what is the legal consideration for the institution to obtain rights?

(a) Payment of salary or stipend	29
(b) Provision of funds or facilities	34
(c) Other (such as patent services furnished to inventor or state legal requirements)	7
	70

Twenty-two institutions checked more than one of the answers. Twenty-one of these responded to both (a) and (b). There is a question as to whether the citation of salary or stipend as a consideration for patent rights is reasonable or even legally enforceable.[1] Faculty are not employed to develop patentable inventions, their salaries and promotions are not based on the value of inventions they may make, and where they have tenure, according to Blackwell, "the agreement by the college to continue to employ them would not, so far as they are concerned, constitute consideration."[2]

The provision of funds and facilities for research does not have the handicap of (a) above and can be used for both employed and non-employed inventors (such as students). Further, the institution would have no equity (unless the inventor would choose to handle it through the institution) in an invention whose conception or reduction to practice does not involve institutional funds or facilities.

16. Is arbitration or some other form of decision-making provided for in the event of a disagreement as to the institution's equity or rights in an invention?

Yes	27
No	21
	48

[1] See Blackwell, T. E. *College Law*. (Washington, D.C.: American Council on Education, 1961.) pp. 175-180, "The Administration of Faculty Patents."
[2] Ibid, p. 179.

The absence of arbitration provisions in twenty-one institutions is somewhat surprising.

17. Does the institution ever relinquish to the inventor its rights to an invention?

Yes	40
No	8
	48

If so, under what circumstances?

Miscellaneous answers included cases in which sponsor and institution chose not to patent.

18. Does the institution ever handle for inventors those inventions in which it has no equity?

Yes	22
No	26
	48

If "yes," what are the conditions?

Miscellaneous answers included paying more than normal royalties to the inventor.

19. If the institution retains patent rights for inventions, what share of royalties is paid to the inventor(s)? Net or gross?

Maximum possible	1
Net 80% scaled down to 25% as total royalty increases	2
Gross 50% plus first $3,000, then 25% to $13,000, then 15%	2
Net 60% 0-$25,000; 50% $25,000-$50,000; 40% $50,000-$75,000; 30% above $75,000	1
Net 50% plus first $1,000 of institution's net	1
Gross 15% plus 50% of additional net	1
Net 50%	6
Net 50% or gross 25%	1
Net 50% maximum, 20% minimum by arbitration	1
Net 50% after first $5,000 net	1
Net 50% until expenses, then 20% of gross	1
Net 42.5%	1
Net 40%	1

Net 40% 0-$50,000; 30% $50,000-$100,000; 15% above $100,000	2
Gross 15% until costs recovered, then 40% net	1
Net 33%	1
Gross 28%	1
Net 25%	5
Gross 20%	1
Gross 15%	9
Net 15%	4
Case by case	3
No answer	1
	48

Although the difference between gross and net royalties varies widely from patent to patent, the answers to this question are listed such that the amounts to inventors decrease in order of total royalties from top to bottom. The median answer is 33% of net royalty income for the inventor. Royalty shares to inventors appear to have increased significantly since the 1962 survey referred to at the beginning of this document. The method of giving the inventor a large initial share and decreasing on a sliding scale (indicated in five of the answers) has the merit of providing a climate of greater cooperation among researchers by reducing the potential rewards to the one researcher who is named the legal inventor.

20. What disposition is made of the institution's share of royalties?

Research	26
General institutional funds	10
Research and patent costs	6
Education and research	3
Patent costs	2
Other	1
	48

21. What steps, if any, are taken to insure that all inventions are properly disclosed?

None (although the patent policy may so require)	23
Regulations	11
Periodic reminders	8
Periodic meetings	5
Special educational program	4
Annual invention statement	3
Other	2
	56

Eight institutions used more than one method of obtaining invention disclosures. It is likely that a greater number used more than one method but did not indicate this.

22. Does the institution have any institutional patent agreements (IPAs) with federal agencies? If so, list the agencies.

Both HEW and NSF	10
HEW only	11
NSF only	3
	24

Note that more than half of the responding institutions have no IPAs.

23. In negotiating sponsored research agreements with industry, does the institution accept requirements for sponsor to obtain:

(a) Title to all inventions	27
(b) Exclusive license	26
(c) Exclusive license for limited period	26
(d) Exclusive license for limited period with march-in rights for lack of diligence	28
(e) Nonexclusive license	31
(f) Other	7
	145

Many institutions indicated more than one answer; three questions were the average number of these. The number of (a) and (b) answers could cause concern about the diligence of institutional endeavors for protection of the public interest. Where title to inventions is given to a sponsor as in (a), the inventor's normal share of royalties under a patent policy presumably disappears.

24. Under the arrangements described in (23) above, is there any provision for royalties or other reimbursement to the institution, such as increased indirect costs?

Royalties	21
Increased indirect costs	17

None	10
	48

As in 23(a) above, where the compensation to the institution for patent rights consists of increased indirect costs or is nonexistent, the inventor's share of royalties presumably disappears.

25. For inventions owned or controlled by the institution and not assigned to a patent management organization, which of the categories of (23) above best describe the institution's policies for assignment or licensing?

(a) Title to all inventions	3
(b) Exclusive license	11
(c) Exclusive license for limited period	8
(d) Exclusive license for limited period with march-in rights for lack of diligence	19
(e) Nonexclusive license	13
(f) Other	5
	59

Only eleven institutions indicated more than one answer. Note that many more of the responding institutions indicated willingness to give greater rights to a research sponsor (see 23 above) than to a licensee or assignee.

26. How many patents were applied for on the institution's inventions during the last ten years by:

(a) Inventor	165 (known)
(b) Institution	889
(c) Patent management organization	554
(d) Industrial sponsor	119
(e) Government sponsor	60 (known)
	1787

Although the number for any one institution varies from 1 to 150 for the total of categories (a) through (e) combined, the average is 37 per institution, or about 4 per year per institution. While this may not appear to be a large number, over a ten-year period the total of 1787 for all institutions is significant.

27. How many of the patents listed in (26) above were issued? 937

28. How many of the patents that were issued (see 27 above) were licensed? 469

These answers indicate a high ratio—fifty percent—of patents licensed to patents issued.

Appendix A: University Patent Policies and Patent Administration Questionnaire

1. Name of Institution

2. Who authorized your patent policy?
   a. Trustees or regents
   b. Faculty
   c. President or chancellor
   d. Other (please specify)

3. What office administers the patent policy?

4. To whom is that office responsible?

5. Is there a patent committee?

6. What is its composition?

7. What are the functions of the patent committee?

8. Does the patent policy cover:
   a. Faculty
   b. Professional staff
   c. Nonprofessional staff
   d. Graduate students employed by university
   e. Graduate students not employed by university
   f. Undergraduates employed by university
   g. Undergraduates not employed by university

9. Does your institution control the disposition of patent rights by either (it is understood that a sponsor may subsequently take control):

Taking title to inventions

Or directing or approving disposition by inventors

Or is the referral of an invention to the university voluntary if there is no sponsor requirement

10. Do you enter into agreements with possible inventors (see 8 above) to establish patent rights (complete only one response)
    a. For all possible inventors from 8 above (specify a, b, c, d . . . etc)
    b. For all possible inventors from 8 who *participate* in sponsored research (specify a, b, c . . . etc)
    c. For all possible inventors from 8 who are *employed* (specify a, b, c . . . etc)
    d. For all possible inventors from 8 who are employed *just* in sponsored research (specify a, b, c . . . etc)

11. Do you or have you considered using a single agreement to cover both patents and copyrights?

12. Is one or more patent management firm utilized and if so give names?

13. If the institution (not a patent management firm) decided to make a patent application, what office makes this decision?

14. Does your patent policy require reporting by those covered by the policy (see 8) of:
    a. *All* inventions made even though there is no institutional or sponsor equity, or
    b. All inventions made on which patents are applied for, even though there is no institutional or sponsor equity, or
    c. All inventions made where there is some institutional or sponsor equity, or
    d. Only those inventions made which must be reported to a sponsor

15. What is the basis of the institution's claim for institutional equity in an invention, i.e. what is the legal consideration for the university to obtain rights?
    a. Payment of salary or stipend
    b. Provision of funds or facilities
    c. Other

16. Is arbitration or some other form of decision-making provided for in the event of a disagreement as to the institution's equity or rights in an invention?

17. Does the institution ever relinquish its rights to an invention back to the inventor? If yes, under what circumstances?

18. Does the institution handle inventions for inventors in which it has no equity? If yes, what are the conditions?

19. If the institution retains patent rights for inventions, what share of royalties is paid to inventor(s)? Net or gross?

20. What disposition is made of institution's share of royalties?

21. What steps if any are taken to assure that all inventions are properly disclosed?

22. Does your institution have any institutional patent agreements (IPAs) with federal agencies? If so, list agencies

23. In negotiating sponsored research agreements with industry, do you accept requirements for sponsor to obtain:
    a. Title to all inventions
    b. Exclusive license
    c. Exclusive license for limited period
    d. Exclusive license for limited period with march-in rights for lack of diligence
    e. Nonexclusive license
    f. Other

24. Under the arrangements described in 23 above, is there any provision for royalties or other reimbursement to the university, such as increased indirect costs?

25. For inventions owned or controlled by the institution and not assigned to a patent management organization, which of the categories of 23 above best describe the institution's policies for assignment or licensing?

26. How many patents were applied for on your institution's inventions during the last ten years by:
    Inventor
    Institution
    Patent Management Organization
    Industrial Sponsor
    Government Sponsor

27. How many of the above patents issued?

28. How many of the patents in 27 were licensed?

Appendix B: Institutions Responding to Patent Survey

University of Akron
Ball State University
Boston College
Brown University
University of California System
California Institute of Technology
University of Cincinnati
Colorado State University Research Foundation
Concordia University
University of Connecticut
Cornell University
University of Dayton
University of Delaware
University of Denver
University of Georgia
University of Guelph
University of Houston
University of Illinois at Urbana-Champaign
University of Iowa
University of Kansas
Kansas State University
Kent State University
University of Kentucky
Universite Laval
University of Maryland
University of Michigan
University of Minnesota
University of Mississippi
University of Nebraska
University of New Mexico
Research Foundation of State University of New York
University of Oklahoma
University of Oregon
Princeton University
Purdue University
Rockefeller University
Rutgers University
Salk Institute
Simon Fraser University
University of Southern California
Southern Illinois University
Texas A&M Research Foundation
University of Toledo
University of Virginia
Virginia Polytechnic Institute and State University
Washington State University
University of Wisconsin
Yale University

Administrative Service supplements document principles, policies, practices and procedures in the field of college and university management. They provide additional information about subject fields or offer specific guidance in regard to generally accepted principles and policies. Supplements are the result of a comprehensive review process modeled after that used for the basic chapters of the Service.

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

PATENT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

Workshop Materials - NCURA Intellectual Property Series - 1984

Title	Unit
Patents and Patent Rights	1
Patent Rights under Government Contracts	2
University Patent Policies and Practices	3
> Patent Clauses in Industrial Research Agreements	4 <
Patent License Agreements	5
The Law of Copyrights	6
Rights in Data under Government Contracts (Reserved)	7
University Copyright Policies	8
Copyright Clauses in Industrial Research Agreements	9
Software Licensing Agreements	10

Introduction to

PATENT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

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This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

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Introduction to

PATENT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

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1. INTRODUCTION

Of all the clauses contained in research agreements with industrial sponsors, those relating to patent rights are likely to require the most time consuming negotiations. In addition, where patents are an important consideration, clauses relating to the dissemination of research results may also be essential, since publication has a direct impact on patent rights.

Most university patent policies provide that the ownership of inventions made in the performance of a research agreement will normally vest in the university. The rationale for this and some typical implementing clauses are set forth in Part 4 of this paper.

The rationale and clauses applicable to situations in which an industrial sponsor acquires ownership to inventions are set forth in Part 10.

Before addressing these, however, the question of conflicts and commingling should be considered and this is addressed in Part 2. The discussion of commingling in Part 2 assumes that the reader is familiar with material on commingling which is contained in Unit 2 of this series, "Patent Rights under Government Contracts".

2. COMMINGLING: THE CREATION OF FEDERAL RIGHTS

In Unit 2 of this series we reviewed the Public Law 96-517, and discussed the question of commingling, i.e., the acquisition of Federal rights in an invention where the conception and/or reduction to practice was supported in part from Federal funds.

It becomes important, therefore, in negotiating industrial agreements, to determine at the outset whether the contract is likely to result in inventions in which the Federal government may already have, or may in the future acquire rights.

2.1 Federal rights already acquired

It is not unusual for an industrial sponsor to support research which may involve the reduction to practice of inventions conceived under Federal sponsorship.

Where that may be the case, the industrial sponsor should be made aware of any such inventions and the nature of the Federal rights to the extent such inventions and rights have already been identified. The likelihood that there may be others not yet identified should also be evaluated. Finally, the contract should contain provisions preserving the university's right and ability to fulfill its obligations to the Federal government.

Assuming that the university is to retain title in all inventions resulting from the industrially sponsored research, Federal rights can be preserved in a number of ways:

a. By a clause providing that "All rights granted hereunder shall be subject to Public Law 96-517 and to the constraints set forth therein."

These constraints, as discussed in Unit 2 of this series, relate to the terms of exclusive licenses, march-in rights, limits on the assignment of title, preference for domestic manufacturers, royalty-free licenses to the Federal government for government purposes, etc.

b. By a clause providing that whatever patent rights are granted will be granted "subject to the rights of third parties," or "to the extent the University has the right to do so."

Where the university and industrial sponsor agree that the sponsor will acquire title to inventions, it is doubly important that

the question of possible Federal rights in any of those inventions be thoroughly reviewed since Federal rights in an invention will preclude the granting of title. In that event, the contract should define the nature of the license rights which the sponsor will acquire when title cannot be granted.

2.2 Potential Federal rights

Some industrial sponsors are quite willing to fund research which is also being supported by a Federal sponsor and to accept the licensing constraints imposed by P.L. 96-517. In such cases the contract clauses cited above are appropriate.

Other sponsors, however, may wish to preclude the possibility of any Federal rights in inventions arising from the research, and may wish to include a clause under which the university agrees not to accept any Federal support which would constitute "commingling" and which will thereby give the Federal government an interest.

It is more common, however, for the sponsor to seek contract assurances that the University will take steps to avoid or minimize the acquisition by any other sponsor, Federal or private, of patent rights which limit or are in conflict with those acquired by the Sponsor. This is the subject of the next section.

3. CONFLICTING PATENT OBLIGATIONS

In negotiating patent clauses, industrial research sponsors may seek assurance that the rights they acquire are not subordinate to or in conflict with rights acquired by other sponsors in the same inventions. They may, as discussed under commingling in the previous section, wish to avoid any Federal rights which would subject the inventions to the requirements of Public Law 96-517. Whatever they may feel about Federal rights, it is quite likely that they will wish to ensure that other industrial sponsors have not already, or do not thereafter, acquire rights from partial support of the same or closely related research by the same investigators.

In order to minimize conflicts in patent obligations to industrial sponsors there are a number of matters which should be carefully considered:

3.1 Terminology

There are a variety of terms used in contracts to define the inventions to which an industrial sponsor acquires rights. These include inventions:

resulting from
arising from
made
made and conceived
conceived and reduced to practice
conceived and/or reduced to practice

The most precise terms, which are words of art under patent law, are "conception" and "reduction to practice." Whether rights are based on the invention being "conceived and reduced to practice," or "conceived and/or reduced to practice," can have significantly different results, as discussed in Section 3.2.

Whichever is used, it is desirable to refer to inventions conceived or reduced to practice "in the performance of research under this agreement," or "in accordance with this agreement," or "in performance of the research set forth in the statement of work," etc. This will avoid the ambiguity of phrases such as "during the period of this agreement," "in connection with this agreement," "as a result of this agreement," etc.

3.2 Conception vs. reduction to practice

From the standpoint of the university, there are some advantages to giving an industrial sponsor rights only to inventions conceived and reduced to practice in the performance of the research contract.

For one thing, it will avoid the conflict which could arise where rights are acquired by the sponsor on the basis of reduction to practice only. If the same research, or closely related research, involving the same personnel, had previously been funded by others, then the current sponsor may acquire rights based on reduction to practice, but a prior sponsor may already have acquired rights based solely on conception.

On the other hand, if an industrial sponsor acquires rights to an invention solely by reason of conception, and then does nothing with it, this could destroy the opportunity to get another industrial sponsor interested in sponsoring further research necessary to reduce the invention to practice.

These points notwithstanding, if it is agreed that an industrial sponsor will acquire rights based on either conception or reduction to practice, the parties will have to negotiate provisions which will deal with preexisting rights or help to avoid future conflicts, as noted in the following sections.

3.3 Limitations on rights

In order to deal with preexisting rights in third parties, a university may use the clauses already cited under Section 2.1, which provide that whatever patent rights are granted will be "subject to the rights of third parties" or to inventions made in the performance of the research "to the extent that the university has the right to do so."

As noted earlier, however, a sponsor may not wish to accept these open ended clauses without a careful review of what may be covered, and may wish to adopt some mechanisms for ensuring that third parties do not acquire such rights in the first place.

3.4 Restrictions on other funding

Some sponsors request a statement in the contract that the university will not accept support from other industrial sponsors (or any sponsor), for the specific work to be performed under the agreement. Universities generally have accepted such clauses on the theory that a sponsor should be entitled to be the sole sponsor of the particular research project once it is defined except where it is understood at the outset that the program is multiple sponsored and the funds will, in fact, be commingled.

Some industrial sponsors request the inclusion of contract language to the effect that the university will not undertake work in related areas for other sponsors, (or that the principal investigator and his research team will not do so), or that related work will not be performed for the sponsor's competitors, or that no research will be undertaken by the university (or research team) which will create a conflict in obligations.

Although provisions of the latter type undoubtedly help to reduce patent conflicts, they raise other questions of policy with which most universities have great difficulty and should be approached cautiously.

3.5 Statement of Work

Broadly defined, flexible research support is highly desirable to a university. Nonetheless, the statement of work should, insofar as possible, define in specific terms the area of research and the elements, tasks or objectives whenever patents are an important consideration. General work statements without specificity give rise to unpredictable conflicts in patent rights and obligations.

Some umbrella or institutional agreements define broad areas within which specific projects will be agreed on by the parties. In such cases, some universities avoid conflicts by including in the umbrella agreement a statement that patent rights will be negotiated in good faith once an individual project has been identified, or by agreeing that certain defined rights in inventions made in the performance of the research will be granted, but "subject to third party rights" or "to the extent the university is able to do so."

3.6 Review for potential patent conflicts

It is, of course, desirable to identify conflicts before they arise and some sponsors ask that they be informed in advance of any potential conflict. This is reasonable to a point, but is difficult where it is stated in such broad terms as "University will not enter any contracts which create any conflict in obligations" as cited above in Section 3.4.

A more manageable approach used in some major institutional research agreements is as follows:

> "University's Administrative Representatives shall, prior to the execution of any and all Project Authorizations and periodically thereafter, review with the Principal Investigators the current and proposed assignments of Personnel performing research under this Agreement to determine whether said Personnel are also performing, or propose to perform, related research under any other agreement between University and a third party. University's Administrative Representatives shall discuss their findings with Sponsor's Administrative Representatives. If in the opinion of Sponsor's Administrative Representatives it is warranted, the Commmittee for Administration will request that University's Patent Counsel review the situation to determine whether any potential conflict exists between the obligations undertaken or proposed to be undertaken by University with respect to patentable inventions under Articles VI through IX of this Agreement, and those obligations undertaken by University with respect to such other agreement. If a potential conflict does exist, University's Patent Counsel will so report to the Committee for Administration, which will request such University Personnel to elect which of the potentially conflicting projects they choose to participate in."

4. TITLE IN THE UNIVERSITY - A RATIONALE

While the patent policies of educational institutions differ in a number of respects, most university policies provide that the ownership of inventions made in the performance of a research agreement will normally vest in the university. Question 23 of the NACUBO Survey reproduced in Unit 3 of this series gives some feeling for the practices of those surveyed in 1978.

4.1 Rationale for university retaining title

Universities which retain title to such inventions assert that by doing so they are in a better position to:

a. Fulfill their obligation as a university to serve the public interest by ensuring that inventions arising from university research are developed to the point of maximum utilization and availability to the public and will not be used to the detriment of the public interest by the unnecessary exclusion of any qualified user or by any other means.

b. Share with inventors the proceeds of royalty-bearing licenses in recognition of their inventorship and as an incentive to spend the time and effort necessary to properly disclose the invention, participate in its evaluation, assist attorneys involved in filing patent applications, and advise potential licensees.

c. Provide the University with a share of the royalties not only to help pay the costs of the patent program, but also to support selected education and research programs in recognition of the university's investment in facilities and personnel without which such inventions would not have been possible.

d. Minimize or facilitate the resolution of conflicts in patent rights and obligations between industrial sponsors, and between industrial and Federal sponsors where research sponsored by industry may lead to the reduction to practice of inventions conceived under Federal sponsorship. Conflicts can be minimized and the equities of the parties more effectively recognized, through licensing mechanisms, when title to the inventions is not at issue.

e. Ensure that the university can pursue with third party licensees those applications which are of no interest to the sponsor and which might not otherwise be developed to the point of commercial availability.

5. LICENSING OPTIONS

The clauses and commentary which follow cover the license rights and other options most frequently granted to industrial research sponsors by universities which retain title to resulting inventions

5.1 Disposition at university discretion

Some industrial sponsors either do not wish to acquire any patent rights, or are willing to let the university determine disposition. In such cases, a clause such as the following can be used:

> "Title to inventions conceived and/or reduced to practice in the performance of this research shall vest in the University, which shall have the sole right to determine the disposition of any patents or other rights resulting therefrom in whatever manner it deems appropriate to protect the public interest and the equities of the parties."

5.2 Non-exclusive license to sponsor

For institutions which normally retain title to inventions made in the performance of industrially sponsored research, the right most frequently granted to the sponsor is an irrevocable, non-exclusive license for the life of the patent. It may be the only right granted, or it may be granted in conjunction with a limited term, exclusive license, or with an option to acquire an exclusive license. The non-exclusive license may be royalty-free, or royalty-bearing as discussed below.

A representative clause granting a non-exclusive license follows:

> "Title to inventions conceived and/or reduced to practice in the performance of this research shall vest in the university, which shall have the sole right to determine the disposition of any patents or other rights resulting therefrom, provided that upon issue of any patent on any such invention, the University shall grant to the sponsor an irrevocable, royalty-free, (royalty-bearing) non-exclusive license to make, use and sell such invention, but without the right to sublicense, for the term of such invention."

There are a number of comments which should be made in connection with this type of clause.

a. Discretionary filing

As this sample clause is written, the university is under no obligation to file patent applications on resulting patents and is in a position to evaluate inventions and determine which it wishes to pursue. However, some sponsors are sufficiently concerned with patents that they would wish a firmer commitment with respect to identifying inventions and ensuring that all inventions in which either party is interested are pursued. This is covered in Part 7.

b. Royalty-free or royalty-bearing

Although non-exclusive licenses granted to research sponsors have at many universities been granted royalty-free, an increasing number of universities are seeking royalty-bearing non-exclusive licenses since the non-exclusive license in the sponsor is a disincentive for other industrial companies to invest funds in developing a marketable product. This is particularly true where the sponsor has acquired license rights based solely on the conception of the invention, so that further investment would be required to reduce it to practice and develop its commercial potential, and where the sponsor is sufficiently large to capture a significant portion of the market if it entered the market on a royalty-free basis.

In addition, some universities which might normally grant a royalty-free, non-exclusive license, prefer royalty-bearing, non-exclusive licenses in situations where the sponsor is dominant in the field, or is an industrial association comprised of companies which are, in the aggregate, dominant in the field. Where a royalty-free license might aid a sponsor in maintaining market dominance, anti-trust considerations might also apply. In any event, the opportunity for granting royalty-bearing licenses to third parties may be so limited that the income to the university may be inadequate to offset the expense of seeking and maintaining patent protection and sharing royalties with the inventors.

c. Sublicensing

Under a non-exclusive license, the right to sublicense is not usually provided since it may put the university in competition with the licensee in offering attractive sublicensing terms to potential sublicensees.

5.3 Exclusive, limited-term license to sponsor

In recent years, universities which retain title to inventions resulting from sponsored research appear to be more willing than previously to provide industrial sponsors with exclusive patent licenses, where requested, and to view them as an appropriate vehicle for the effective transfer of the technology.

In most cases, the rights granted are a limited-term (less than the life of the patent), exclusive license (or an option to acquire such a license). The following clause is typical:

"Title to any invention conceived and/or reduced to practice in the performance of this research shall remain with the University, provided, however, that the University shall grant to the sponsor an irrevocable, royalty-free, (royalty-bearing) non-exclusive license to make, use and sell such invention, but without the right to sublicense, for the term of any patent thereon.

"And provided further that the University shall grant to the Sponsor (an option to acquire) an exclusive license to make, , have made, use and sell such invention or discovery, with the right to sublicense, at reasonable royalty rates, the term of exclusivity and the royalty rates to be negotiated at the time the invention or discovery is made (provided further, however, that this option must be exercised by Sponsor by notice in writing to the University within ___ months from the date the invention or discovery is first disclosed to the Sponsor). The parties agree that all of the terms and conditions of any such license shall be reasonable in light of then existing industry practice."

There is apparently some difference of opinion as to whether an exclusive license (or an option for one) should be granted under the research contract or negotiated only after an invention has, in fact, been identified. The more common practice is probably the granting of the exclusive license (or option) at the time the contract is negotiated, assuming that the research project, the research team, and other pertinent information is known, including any potential for conflicts in patent rights. Under umbrella agreements, where the individual projects are not known at the time the overall agreement is negotiated, the decision is more likely to be deferred. A number of other comments should be made:

a. Discretionary filing

Although not as emphatically stated as the clause in Section 5.2 above, the university is under no obligation to file on all patentable inventions, but only to grant a license for the term of "any patent thereon." Sponsors who are interested in exclusive licensing, however, are more likely to want a firmer commitment with respect to patent filing, and this is explored in Part 7.

b. Length of exclusivity and royalty rates

The sample clause above states that the term of exclusivity and the royalty rates will be negotiated at the time the invention or discovery is identified. The rationale for this approach is that only after the making of the invention can its value and potential market be ascertained.

If there are compelling reasons, however, for specifying these in advance, some universities may agree to setting the length of exclusivity and the minimum and maximum royalty rates in the contract at the outset. This can be done for example, by modifying the foregoing clause as follows:

"And provided further that the University shall grant to the Sponsor a limited term, exclusive license to make, use and sell such invention or discovery, with the right to sublicense, the term of exclusivity to be ___ years from the date of execution of the license agreement or ___ years from the date of the first commercial sale of said invention or

discovery, whichever occurs first, and at reasonable royalty rates to be negotiated at the time of the license agreement, but such rate not to be less than ___ nor more than ___ percent of the net sales price of the invention."

c. Sublicensing and performance criteria

An exclusive license usually gives the Sponsor the right to sublicense others at reasonable royalty rates. Apparently most universities do not make such sublicensing mandatory under exclusive limited-term licenses, but do require (1) performance milestones and/or minimum annual payments as incentives for the licensee to develop the technology and ensure that it becomes available for the benefit of the public, or (2) other forms of assurance that commercialization will be diligently pursued.

The initial period of exclusivity is sometimes extended under special circumstances or with contractual assurances that licensing will be pursued as diligently as it would be by the university. These contractual assurances may include mandatory sublicensing, performance milestones, arbitration procedures, etc.

Any exclusive licensing subject to P. L. 96-517 because of Federal rights in the invention must, of course, meet the requirements of OMB Circular A-124, as set forth in Unit 2 of this series.

5.4 Exclusive, full-term license to sponsor

Universities which adopt the philosophy that they have an obligation to ensure the transfer of technology through patents in the public interest tend to resist the granting of exclusive licenses for the life of the patent except under special circumstances, such as settlement of a possible litigation claim, settlement of an interference action, or as a possible alternative to assigning title or granting joint ownership, etc.

Where universities do grant a life of the patent exclusive to an industrial research sponsor, they may require assurances such as mandatory sublicensing on a non-discriminatory basis to all qualified parties and an arbitration procedure for any appeals.

A sample clause is as follows:

"Title to any invention or discovery conceived or first reduced to practice in the performance of this research shall remain with the University; provided, however, that the University shall grant to the Sponsor an irrevocable, exclusive license with mandatory sublicensing at reasonable terms on a non-discriminatory basis to all qualified parties for the term of any patent thereon, to make, have made, use and sell such invention or discovery, such license to be at reasonable royalty rates to be negotiated at the time the invention or discovery is made."

6. JOINT TITLE

Although most universities resist the fragmenting of ownership, some recognize a few situations in which a research sponsor might be granted joint title to inventions resulting from the research.

6.1 As an alternative to sole title

Some universities negotiate joint title as an alternative to granting the research sponsor sole title, using a clause such as the following:

> "Title to any invention or discovery conceived or first reduced to practice in the performance of this research shall be jointly owned, with each party having the right to license others without accounting."

Although this may be preferable to surrendering sole title, it should be recalled, as stated in Unit 1 of this series, that each holder of joint title in an invention can do anything a sole owner could, i.e., sell or assign its joint interest to others, license others on whatever terms and conditions the joint owner deems appropriate, and do so without any responsibility to account for its actions or for its royalty income to the other joint owner.

Joint owners, however, may also agree to a coordinated approach to filing, licensing, and the treatment of royalties, and some universities, where joint title is agreed to, prefer this from the standpoint of good business and licensing practice. This type of arrangement is reflected in the sample clause which follows:

> "a. Title to any invention or discovery conceived or first reduced to practice during the performance of the work under this agreement shall be jointly owned by Sponsor and the University, and each shall receive an equal undivided partial interest in such invention or discovery, and resulting foreign or U.S. patent applications thereon, and any foreign or U.S. patents issued thereon.
>
> "b. Sponsor and the University as joint owners shall be free to grant non-exclusive licenses hereunder to anyone. Any such patent/patent applications jointly owned by the University and Sponsor shall be applied for at the joint expense of both parties, provided that each party concurs in the acquisition of such patent. If either party elects not to contribute to such expense, the other party shall receive the whole interest in such patent application/patent.
>
> "c. Patent applications and/or patents obtained hereunder on jointly owned inventions may be licensed by the University or the Sponsor on any appropriate terms, including royalty free or on a

reasonable royalty basis. The royalty income earned on the licensing of patent applications/patents hereunder, whether licensed by Sponsor or the University, shall be equally apportioned between the Sponsor and the University."

Whether this approach is preferable may depend on the nature of the market, the nature of the sponsors marketing capability, and other factors.

As an alternative or modification to the coordinated approach reflected in the foregoing clause, the parties may agree that one of them will act as the sole agent of both with respect to patent licensing, and receive back from the other party an exclusive license to that party's joint rights.

6.2 Joint research programs

Joint title is most frequently granted in situations in which the sponsor and the university are engaged in joint research, and the first problem is to define what this means. Joint research may be variously defined to include the sponsor and the university conducting portions of the same project, or conducting separate but closely related projects in parallel. It may involve sponsor personnel participating in the University research and/or University personnel spending time in the Sponsor's laboratories.

There are a variety of approaches to defining ownership of inventions on joint research. Allocation of ownership rights may depend on the affiliation of the inventor, the location of the research, the definition of what is "in the performance of research under this agreement," etc. The complications of these different approaches are beyond the scope of this section. The following sample clauses, therefore, deal with the relatively simpler case of research performed solely at the University with Sponsor personnel participating.

a. Ownership based on affiliation

One of the simplest arrangements, based on the inventor's affiliation, is the following:

1. "Title to any invention made solely by a Sponsor employee shall vest in Sponsor. University shall have the right to use any such invention internally for its own purposes.

2. "Title to any Invention made solely by a University employee shall vest in the University, Sponsor shall have the license rights defined elsewhere in this agreement.

3. "Title to any inventions made jointly by employees of Sponsor and University shall be jointly owned."

Where ownership is joint the parties may wish to agree on a coordinated approach to the licensing and sharing of royalties as discussed in 6.1 above.

b. University ownership

The following clause reflects the philosophy that unless the university takes title to all inventions made in the performance of the research, regardless of by whom made, it could create undesirable conflicts and fragmenting of ownership. The equities and contribution of the sponsor, however, can be reflected in the setting of royalties and other licensing provisions:

> "Title to any inventions made by sponsor and/or University personnel solely or jointly in the performance of the research or through the use of any facilities or resources of the University shall vest in the University, but due consideration will be given to the Sponsor's contribution in negotiating the terms of the licenses granted elsewhere under this agreement."

7. RESPONSIBILITY FOR FILING AND ALLOCATION OF COSTS

7.1 Filing by the university

In Sections 5.2 and 5.3, we noted that sponsors interested in exclusive licenses may also wish assurances that the university will be active in identifying inventions and pursuing patent protection on all those in which the sponsor is interested. A typical clause to this effect is the following:

> "Title to inventions conceived and/or reduced to practice in the performance of this research shall vest in the university, which shall take steps to file patent applications in the United States at its expense on all patentable developments. Upon issue of any patent on any such invention, the University shall grant to the Sponsor...."

The university, however, may not wish to commit itself in advance to seeking patent protection at its own expense by filing on all inventions, whether or not they appear to have commercial potential. For that reason, it may be necessary to consider other options, such as permitting filing by the sponsor when the university elects not to, and/or providing that the sponsor share the costs. A sample clause addressing this option is as follows:

> "1. University shall file or have filed in a timely manner at its own expense a United States patent application or applications on all inventions arising out of the performancce of this research and shall diligently prosecute such applications. Sponsor may make a written request to the University to file a United States patent application on any invention identified to the University by the Sponsor.
>
> "2. Where the University for any reason elects not to file such a patent application in the United States or in a foreign country, University shall notify the sponsor promptly and the Sponsor shall have the right to file such application at its own expense in the name of the University."

The foregoing clause provides that the university pays the cost when it files, whether at its own initiative or at the request of the sponsor, and the sponsor pays only for the filing which the university elects not to pursue. A somewhat different approach is reflected in the following clause, which provides that the sponsor only gets rights to inventions on which it recommends filing and for which it pays half the filing and related costs, except that if the university fails to follow the sponsor's recommendation, the sponsor may pursue patent rights at its own expense in the university's name.

"1. Sponsor agrees to provide university with non-binding recommendations regarding the filing, prosecution, issuance, reissuance and maintenance of all University patent rights. University shall have the sole right, in its discretion, to follow or not to follow Sponsor's recommendations. To enable Sponsor to provide its recommendations, University agrees to advise Sponsor at least 30 calendar days prior to the due date for taking any action affecting the filing, substantive amendments, issuance, reissuance and maintenance of all University patent rights.

"2. Sponsor agrees to reimburse University for one-half of its reasonable out-of-pocket patent costs (including outside patent counsel fees, search costs, filing and issue fees, and maintenance taxes) associated with the filing, prosecution, issuance, reissuance and maintenance of those Contract Patent Rights which Sponsor recommends should be filed, prosecuted, issued, reissued and maintained.

"3. If Sponsor specifically declines in writing to recommend that University file an application to obtain any Contract Patent Rights, University shall be free to proceed at its own expense and any contract patent rights obtained shall not be subject to the licenses granted to the Sponsor elsewhere in this agreement.

"4. In the event that University elects not to follow any Sponsor recommendation in favor of the filing, prosecution, issuance, reissuance and maintenance of any patent application or patent within University Patent Rights, University shall so inform Sponsor in writing at least 60 days (to the extent feasible) in advance of any statutory bar, including foreign statutory bars, or response date or the proposed date of abandonment, and Sponsor may, at its option, pursue said patent rights in the name of University. Thenceforth, Sponor shall bear all expenses associated with obtaining such patent rights."

Where the sponsor files as contemplated above on inventions which the university elects not to pursue, there are various ways to recognize its contribution. The sponsor might be given a credit against royalties due the university from the licensing of the patent up to the total of sponsor's prosecution and maintenance costs, or royalties might be shared on a basis more favorable to the sponsor, or waived entirely. In such cases, it is also somewhat more likely that the sponsor would be given the exclusive license for the life of the patent rather than for a limited term.

In some cases where the university elects not to file, the sponsor is allowed to file in the sponsor's name, and the university would normally retain a royalty-free, non-exclusive irrevocable license to practice such invention for research purposes only. Royalties might or might not be shared. Some universities prefer this approach rather than allowing the sponsor to file in the name of the university. In the latter case, control is essentially in the sponsor, but the university might well be joined as a party to any infringement or other litigation since it retains legal

ownership. Where title is in the name of the sponsor, the joining of the university in the suit is less likely to occur, unless the university is "an indispensable party" in the legal sense.

7.2 Filing by sponsor

It may, of course, be agreed from the outset that all filing of patent applications will be done by the sponsor. In some industries, companies prefer to have this done by their own lawyers whom they consider more specialized and expert in their field. Whether such lawyers will give attention to claims and fields of use not specifically within the company's area of interest can be argued.

Where it is agreed that the company will do the filing, a clause such as the following might be used; or any clause which simply reverses the approach in Section 7.1 above.

> "The Company may, at its own expense and in consultation with the University, file and prosecute a patent application(s) on the invention in the United States. The Company will also select countries for the international filing of such application(s), and all filing, prosecution and maintenance costs will be the responsibility of the Company. In the event the Company elects not to take a license under such patent(s), the responsibility for such filing, prosecution and maintenance costs shall revert to the University. The University may supplement the list of countries for international filing but, unless the Company agrees to pay for the filing and prosecution in any of these additional countries, these costs will be paid by the University."

Another approach to filing by the Sponsor is reflected in the following provisions:

> "1. When Sponsor has indicated its interest in a license under prospective Patent rights to an invention it shall promptly cause its patent attorneys to file and prosecute in good faith a United States Patent application on such invention. Sponsor shall also effect the filing and good faith prosecution of foreign Patent applications corresponding to the United States application in whatever countries Sponsor by written notice to the University indicates its interest in a license under prospective Patent rights.
>
> "2. Until such time as Sponsor notifies the University in writing that it no longer has an interest in a license, or until the expiration of the time specified in Paragraph ___ during which time Sponsor has not given notice of its election to take a license, Sponsor agrees to bear the cost for filing and prosecution of Patent applicatons under Paragraph 1 and the issuance and maintenance of Patents thereon. Sponsor shall not be required to prosecute any such Patent application beyond the point of final rejection by the assigned Primary Examiner in the United States Patent and Trademark Office or the equivalent stage of prosecution if a foreign application. The University, at no cost or obligation or liability

to Sponsor, may take action to file or prosecute any Patent application or have issued or maintain any Patent on which Sponsor elects not to take such action. Any such election by Sponsor shall be promptly communicated to the University and in adequate time to allow the University to take such action if it so desires. Sponsor's right to a license thereunder shall not thereby be diminished.

"3. With respect to Patent applications filed and prosecuted and Patents issued or maintained by Sponsor under Paragraphs 1 and 2, the University at its own expense may designate and retain patent counsel of its own who shall be permitted to review such Patent applications and proposed responses to Patent Office actions thereon and issuance and maintenance of Patents and to consult with Sponsor's patent attorneys before Sponsor takes action thereon. However, the control of such filings, prosecutions, issuances and maintenances shall rest with Sponsor unless it elects to relinquish such control to the University under Paragraph 2 by timely written notice. The University may at any time elect by notice in writing to Sponsor to assume at University's cost those activities undertaken by Sponsor under Paragraphs 1, 2 and 3 on behalf of the University in regard to any Patent application or Patent, and Sponsor's right to a license thereunder shall not thereby be diminished."

8. LICENSE TERMS AND CONDITIONS

Research contracts with industrial sponsors deal with the terms and conditions of license grants in a variety of ways.

In some cases, the contract simply states that the sponsor shall be entitled to certain licensing rights as set forth in a separate agreement. The separate agreement spells out the sponsor's license rights and/or the options it may elect. This agreement, sometimes referred to as a License Option Agreement, is then executed in conjunction with the research contract. It resembles a license agreement but the royalty rates and certain other specifics may be left for subsequent negotiation once an invention is identified.

In other cases, the sponsor's options are spelled out in the contract at a level of detail comparable to that in the option agreement. The legal effect is the same in either case, but some universities which make research contracts available as public documents, except for the business and financial details, prefer to have these details in a separate option agreement so that the research contract can be made available without editing and deletions.

In the majority of cases, however, it appears that research contracts take the middle ground and contain clauses which cover the most important rights to be granted but leave the rest of the license agreement to be negotiated when the invention is identified. In general, such research contracts will at least cover the following:

Ownership of inventions
Right to non-exclusive or exclusive licenses
Exclusive License terms: length, sublicensing obligations, performance requirements, applicability of PL 96-517, etc.

In conjunction with such contracts, the sponsor may wish to study the university's standard licensing agreement in order to anticipate whether any problems could arise later which might best be addressed at the outset.

9.0 DISCLOSURE AND PUBLICATION

Where patents are an important consideration in contracts sponsored by industry, emphasis is also placed on the filing of patent applications before patent rights are defeated by publication, as discussed in Part I of this course.

9.1 Monitoring and disclosure of inventions

Some contracts seek to protect patent rights by establishing mechanisms for (1) monitoring or reviewing the research on an on-going basis to identify inventions at an early stage and (2) prompt disclosure to the sponsor.

A sample three-part clause reflecting this approach is as follows:

> "1. The Sponsor shall monitor progress of the Project through its representative on the Advisory Committee, the Program Director, and the Project Investigator, as appropriate. The primary purpose of such monitoring is to detect potentially patentable inventions as early as possible, which shall be a responsibility of the Sponsor."
>
> "2. When in the judgment of the University a Project first reaches the stage where it has produced technical developments of apparent commercial utility and the University believes that such technical developments may be patentable and have not been identified by the Sponsor through the monitoring of progress on the research, the University shall report such potentially patentable inventions to the Sponsor. Thereupon the Sponsor shall make the evaluation, exercise its election and report to the University as specified above.
>
> "3. University shall make periodic reports to Sponsor of the results of the research and shall notify Sponsor of its intentions with respect to all patentable inventions conceived or first reduced to practice in performing the research hereunder, including its intention to file or not to file for patents and the countries to be filed in, to terminate prosecution of pending patent applications, or to discontinue the maintenance of any issued patents."

Whether or not a research project is such as to warrant this type of monitoring depends on the facts, and it may not be appropriate in some cases. In any event, where some such a mechanism is in place, the emphasis on the review of publications and journal articles as the means of disclosing patentable inventions is less and the likelihood of publication delays of the type contemplated in the following section is reduced.

9.2 Publication

The University's right to publish is frequently preserved by a clause of the following type:

> "University is free to publish the results of this research after providing a copy of the proposed publication to the sponsor."

Where a sponsor is not particularly interested in patents or is satisfied with a license to whatever patents the university itself chooses to acquire, this clause may be adequate.

Where, however, the sponsor is interested in patents and may wish itself to pursue those which the university does not, it will usually request that the clause be modified to provide for a delay in publication to protect patent rights.

a. Delay in publication

Where sponsors wish an opportunity to review publications in order to ensure that patentable inventions are not overlooked, it is not unusual for a university to agree to delay publication for this purpose. (In addition, in situations where the university has accepted proprietary data of the sponsor as background information, this also gives the sponsor an opportunity to identify any such data which has been inadvertently included in the publication.) A typical clause might read as follows:

> "The University is free to publish the results of this research after giving a copy of the proposed publication to the sponsor at least 30 days prior to the intended publication date, to allow the sponsor to review for patentable subject matter (or to ensure against the disclosure of any proprietary data of the sponsor)."

Where publication delay is long enough in practice, as is often the case with publications in professional journals, it is assumed that the parties will have time to conduct the review and do whatever is appropriate to protect patent rights.

b. Delay in publication plus extension

Because foreign patent is such that any publication of any nature prior to filing, whether oral or written, in any part of the world, may eliminate the possibility of foreign patent protection, some industrial sponsors are concerned not only that patentable subject matter be identified, but that the university secures patent protection by filing prior to publication, or allows the sponsor time to obtain such protection.

Consequently, a number of universities contractually agree to an additional delay or deferral for this purpose, through a clause such as the following:

> "The University is free to publish the results of this research after giving a copy to the sponsor at least 30 days prior to the intended publication, except that the University agrees that it will defer the intended publication for an additional 60 days, upon the request of the Sponsor during the initial 30 day review period, in order to provide adequate time for the filing of a patent application."

c. Delay in submission

The foregoing clauses provide a delay period based on the intended date of publication, but some sponsors are uncomfortable with this since the publication date may not be in the university's control and for other reasons. In such cases, some universities are willing to state the delay in terms of "30 days prior to submission to the publisher" rather than prior to the intended date of publication.

10. TITLE IN THE SPONSOR

As noted in Item 23 of the NACUBO Survey included in Unit 3 of this series, 27 universities indicated that they would permit a research sponsor to acquire ownership in inventions. In practice this occurs in a variety of ways. The sponsor may acquire title in specific inventions resulting from the research under specified circumstances, as, for example, when the university elects not to pursue an invention and the sponsor is permitted to do so in its own name. On the other hand, the research agreement may provide the sponsor with ownership to all resulting inventions. Such agreements may be an exception to the university's normal patent policy and permitted only under unusual circumstances, or it may simply be one of the alternatives which the university normally makes available where no Federal rights apply.

10.1 Rationale for sponsor acquiring title

One industrial sponsor which seeks title to inventions resulting from the research which it sponsors, argues that:

a. The company is interested in emerging technologies that will provide the basis for new products in an intermediate time frame. The best way to achieve this objective is for the company to draft and apply for any patents which evolve from the supported research and for the company to hold title to any issued patents.

b. The company, as opposed to the university, is in a better position to judge the commercial merit of an invention and to interpret this judgement into a sound enforceable patent.

c. Holding title to the patent is necessary in order to justify the very large expenditures which are required to develop and commercialize the invention.

d. When the company acquires title, the interests of the university and the public can be protected by contract provisions such as the following:

1. Limits are placed on the time which the Sponsor has to file U.S. and foreign patents. Rights to inventions on which the Sponsor does not wish to file are returned to the University.

2. The Sponsor agrees to commercialize patented inventions resulting from the sponsored research through internal development or through licenses within a specified time. If it fails to do so title will revert to the university.

3. The Sponsor agrees to pay the university a royalty for monetary benefits arising from the practice of the invention, with the rate to be negotiated in good faith when the invention is known.

4. The Sponsor will review contemplated oral or written publications prior to their release so as not to jeopardize either U.S. or foreign patent applications, but promises a tight timetable for this review to prevent any possible suppression of the information or unreasonable delay in publication.

Where the contract contains provisions such as the foregoing, it may in many respects have the same net effect as if the University retained title and provided an exclusive, long-term license to the Sponsor. The issue, then, is which party should control the patent in the public interest and which party must take the initiative to resolve disagreements through arbitration or other legal steps.

10.2 Other considerations

Universities which are willing as a matter of policy to assign title to industrial sponsors under appropriate terms, however, consider a number of additional factors before doing so in particular situations, such as:

a. Whether there is any possibility of past or future support that might result in subjecting inventions to Public Law 96-517.

b. Whether the proposed research has been supported by other commercial sponsors or is related to other projects in such a way that rights in resulting inventions might be claimed by more than one party, particularly if the research involves the reduction to practice of inventions previously conceived under other sponsorship.

c. Whether the proposed research is likely to result in inventions which have significant applications outside the sponsor's field of interest and whether these applications will be pursued.

d. Whether the University already has a patent position in the technology involved.

10.3 Patent clauses -- Title in sponsor

In practice, where sponsors acquire title, the terms can vary widely. A simple clause granting the sponsor title without any consideration or control by the university might be used as follows:

"Title to any invention or discovery made or conceived in the performance of this research shall vest in the Sponsor, provided, however, that Sponsor shall grant to the University an irrevocable, royalty-free, non-exclusive license for the use of such invention or discovery for the term of any patent thereon."

Other such agreements have some or all of the elements described in 10.1.d. above, so that the University retains some of the same rights it would have had by retaining ownership and granting the sponsor a royalty-bearing, exclusive license with due diligence requirements and march-in rights. This type of agreement is reflected in the following clauses:

"1. UNIVERSITY shall be responsible for ensuring disclosure to SPONSOR of any and all inventions within thirty (30) days of discovery, conceiving, or finding of an invention by any investigator engaged in research activity funded by SPONSOR under this Agreement.

"2. SPONSOR shall have an additional ___-month period from the U.S. filing date in which to file counterpart patent applications covering said invention in countries foreign to the United States. SPONSOR shall provide UNIVERSITY with copies of all U.S. patent applications, Patent Office actions and amendments at the time they are filed or received by SPONSOR, and shall provide UNIVERSITY with serial number and filing date information for foreign-filed applications and with copies of all foreign patents which issue thereon.

"3. Within ninety (90) days after the filing of a patent application by SPONSOR as provided in Section 2, UNIVERSITY shall make assignment to SPONSOR of the entire right, title and interest in and to said patent application and in and to the invention or inventions described in said patent application without further compensation. In order that UNIVERSITY may accomplish said assignment, UNIVERSITY shall require each investigator engaged in research under this Agreement to execute an "Invention and Patent Assignment Agreement" form, attached hereto and made a part hereof as Appendix "B".

"4. In the event SPONSOR fails to file foreign patent applications within the periods set forth in Section 2, or having filed an application elects to discontinue prosecution of such application, SPONSOR shall upon request from UNIVERSITY assign back to UNIVERSITY all patent rights for each of those countries in which no application is filed or prosecution is discontinued. Any assignment back to UNIVERSITY from SPONSOR will be subject to a right in SPONSOR of an irrevocable, nonexclusive, royalty-free license to make and use within SPONSOR for purposes of research and development, but not for production or sale, any subject matter assigned back to UNIVERSITY.

"5. In the event of issuance to SPONSOR of a U.S. or foreign patent which issues from a patent application assigned to SPONSOR from UNIVERSITY, SPONSOR shall grant to UNIVERSITY an irrevocable, nonexclusive, royalty-free, non-transferable license to make and use the subject matter of any such patent, said license being limited to research, teaching and development activities practiced at UNIVERSITY.

"6. SPONSOR recognizes that an important objective of UNIVERSITY is to make available to the public the fruits of research. SPONSOR agrees to use reasonable efforts in commercializing an invention or in identifying and securing one or more licensees capable of commercializing an invention described in a patent application assigned to SPONSOR by UNIVERSITY. In the event said invention is not commercialized either by SPONSOR or through its licensees within a period of five (5) years from the filing date of said patent application, SPONSOR will assign all rights to said patent or patent application to UNIVERSITY upon request subject to an irrevocable, nonexclusive, royalty-free license to SPONSOR to make and use within SPONSOR for purposes of research and development, but not for production or sale, the subject matter of said patent or patent application."

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

PATENT LICENSING AGREEMENTS

Workshop Materials - NCURA Intellectual Property Series - 1984

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Introduction to

PATENT LICENSING AGREEMENTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

PATENT LICENSING AGREEMENTS

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INTRODUCTION

Some of the patent licensing done by universities relates to inventions in which the university acquired ownership under the terms of employee patent agreements or by assignment from individuals who elect to have the university develop and market inventions on their behalf. University research administrators, however, are primarily concerned with patent licensing which relates to university owned inventions which resulted from research programs sponsored by the Federal government or by industrial organizations. The purpose of this paper is to provide an introduction to the principal features of such licensing agreements. The sample licensing agreement included in this paper is a royalty-bearing, limited term, exclusive license, which is preceded by a brief commentary on each of its provisions.

Those interested in pursuing patent licensing further should seek guidance from professional groups such as the Society of University Patent Administrators, the Licensing Executives Society and from publications such as the following:

1. Les Nouvelles - The Journal of the Licensing Executives Society, a worldwide federation of business-oriented professional societies of individuals involved in the transfer of technology and industrial or intellectual property rights. (Les Nouvelles, 1225 Elbur Avenue, Cleveland, Ohio 44107).

2. The Law and Business of Licensing - Licensing in the 1980's, - A looseleaf reference series with new material added on an annual basis in the form of supplementary pages and new binders. Published by Clark Boardman Company, Ltd., 435 Hudson Street, New York, N. Y. 10014, this series, the first volume of which was issued on October 15, 1981, is the follow-on to the four-volume series, The Law and Business of Licensing, which was closed out in 1980. Both series feature reprints of selected articles from Les Nouvelles.

3. The Licensing Law Handbook, Clark Boardman Company, Ltd., - An annual series, starting with 1979, designed to assist practitioners and licensing professionals to cope with new developments in the law and business of licensing. The 1982 volume, fourth in the series, covers the pricing of technology, joint ventures, R&D limited partnerships, and international operations.

LICENSING AGREEMENTS

As noted in Unit 1 of this series, "Patents and Patent Rights", the owner, or joint owner, of a patent may grant a license to others. A license is the permission granted by the patent owner to another to make, use or sell the invention. No particular form of contract is required. A license is a contract and may include whatever provisions the parties agree to. It may be established by contract or implied from the conduct or legal position of the parties. This paper deals with licenses which are established under the terms of research contracts.

In some cases the invention which is the subject of the license may have resulted from research funded in whole or in part by the Federal government. In that case the license may be subject to Federal rights, These were discussed in Unit 2 of this series, "Patent Rights under Government Contracts" under the section on "Commingling," and are set forth in the standard patent clause at FAR 52.227-11, which is appended to that unit.

Patent licensing has also been discussed in Unit 3, "University Patent Policies and Practices" in connection with the development and marketing of inventions.

Finally, the clauses and commentary in Unit 4, "Patent Clauses in Industrial Research Agreements" cover the license rights and other options most frequently granted to industrial research sponsors by universities which retain title to resulting inventions.

Non-exclusive licenses. As noted in the last cited paper, the right most frequently granted to a research sponsor is an irrevocable, non-exclusive license for the life of the patent. It may be the only right granted, or it may be granted in conjunction with a limited term, exclusive license, or with an option to acquire such a license. It may be royalty-free or royalty-bearing.

Exclusive licenses. In recent years, however, universities which retain title to inventions resulting from sponsored research appear to be more willing than previously to provide industrial sponsors with exclusive patent licenses, and to view them as an appropriate vehicle for the effective transfer of technology. In most cases, the rights granted are for a limited term.

In connection with exclusive licenses, many universities require (1) performance milestones and/or minimum annual payments as incentives for the licensee to develop the technology and to ensure that it becomes available for the benefit of the public, or (2) other forms of assurance that commercialization will be diligently pursued.

Because of its growing use and its importance in the technology transfer process, the sample agreement and commentary which follows deals with a typical exclusive, limited term, royalty-bearing license in use at one university.

LICENSING AGREEMENT

Commentary

The attached sample agreement, which is presently in use at MIT, illustrates the essential provisions of an exclusive patent license to a research sponsor. It includes, in certain clauses, language which must be used where government funding was involved, as discussed in Unit 2 of this series, "Patent Rights under Government Contracts".

Other universities may add clauses which are not included in the sample agreement, omit some of the clauses which are, or state them in a different manner. Nonetheless, the sample agreement suggests the subject matter which must be dealt with and the type of clauses which are used. It is set forth solely as an example, and is not recommended for use by other institutions unless appropriately modified and adapted by a qualified patent attorney.

The following comments refer to the corresponding provisions of the sample agreement.

PARTIES

The parties must be identified by name and place of business and by their "hereafter referred to as..." designation, such as licensor, university, licensee or a combination thereof.

RECITALS

The recitals (i.e., Whereases) help to identify and characterize the type of license and the general nature of the agreement at the outset. The royalty-free license to the U.S. government (in the first Whereas of the sample license) is used, of course, only where the invention was developed using government funds.

ARTICLES

I. Definitions

It is important in this section to define certain of the essential elements to be covered by the license. For example, it should be clear whether "licensee" includes any subsidiary and how subsidiary is defined. Similarly, the actual patent rights which are the subject of the license should be clearly defined. Other areas which should be defined from the outset include the licensed product and/or licenses process. Other

definitions can be added as deemed appropriate under particular circumstances.

II. Grant (License rights)

The agreement should clearly specify the type of license and the rights granted. It may also contain provisions relative to requirements for sublicensing.

A. Type of grant

This section specifies the type of license as, for example, whether it is worldwide, whether it is a license for research purposes only, or one which allows the licensee to fully commercialize the invention (i.e., "to make, have made, use, lease and sell") and whether the licensee's rights are restricted to a certain field of use.

B. Degree of exclusivity

This section sets forth the period for which the exclusive license is granted. Attention should be given to any restrictions imposed by governmental regulation under OMB Circular A-124 for government funded inventions. Note also that, at the termination of the exclusive period, the license automatically becomes non-exclusive to the end of the remaining life of the patent.

C. Sublicensing rights

The remaining sections usually define the licensee's rights to sublicense; the reporting requirements where a sublicense is granted; and the terms of any such sublicensing rights, although royalty terms are usually addressed in the royalty clause which follows.

III. Due diligence - Performance milestones

A critical provision in any exclusive license is the "due diligence" clause, which sets forth the performance milestones that must be achieved by the licensee if the license is to continue in effect. The clause is a form of "march-in" which allows the university the right to terminate the agreement if the licensee does not perform as agreed. In some license agreements, the due diligence provision allows the university to revoke the exclusivity for failure of performance but permits the licensee to retain a non-exclusive license. This is usually the case where the licensee is a research sponsor and would, at minimum, be entitled under the research contract to a non-exclusive license in any event.

IV. Royalties - Licensing fees

It is customary in an exclusive license to require a license issue fee upon execution of the license agreement. This fee serves to return immediately to the university the costs of patent filing and is also an indication that the exclusive licensee has a serious intent to commercialize the invention. The license issue fee may, or may not, be used by the licensee as a credit against future royalties, and where the licensee is the sponsor of the research, the license fee is often waived.

Perhaps the fairest measure of royalties and that used most often is the running royalty based on the net sales price of the licensed product. The rate is usually set higher during the period of exclusivity and lower during the period of non-exclusivity. It is important also to set an annual minimum royalty as a useful method to ensure performance by the licensee.

The procedure for making royalty payments is also included in this section.

V. Reports and records

It is important that a clear understanding be reached by the parties as to the type of records which must be maintained and the type of inspection permitted. An adequate reporting procedure from the licensee to the university is essential, as is the university's right to retain an accountant for inspection of licensee's royalty records. For purposes of economy a university might retain the right to use its own internal auditing divison for such inspection. The licensee, however, may insist that an independent certified accountant be retained, and this latter provision is more common, although obviously more costly. The royalty statement should specify sales to the U.S. government only in those license agreements where the government has a royalty-free license by virtue of funding the invention.

VI. Patent prosecution

This section sets forth the obligations of the parties to apply for and maintain the licensed patent rights. In the sample agreement this burden is assumed by the university; however, it may well be assumed by the licensee or by both parties as discussed in Part IV covering research contract patent clauses.

VII. Termination

A termination provision is essential in an exclusive license. The provision should state clearly the cause for termination, the notice period requirement, and the university's right to terminate based on a breach of the agreement.

VIII. Arbitration

Under the arbitration provision in the sample agreement, issues concerning the validity, construction or effect of any patent are excluded from the arbitration and such patent issues are left to be decided directly by the courts. A recent change in the law, however, permits the issue of patent validity, etc., to be the subject of arbitration by agreement of the parties and the clause can be written to provide for this. In the sample agreement, the arbitration is to be conducted within the rules of the American Arbitration Association. Where the license agreement is with a foreign licensee, rules of the International Arbitration Association usually apply, although this again is subject to agreement between the parties.

IX. Infringement

It is advisable to clearly define the obligations and rights of both parties in any action to protect the licensed patent from infringement or to prosecute infringers. In the sample provision the university agrees to protect the patent from infringement and to prosecute infringers in its sole judgment. Licensee, however, is given the right during the exclusive term to also prosecute, at licensee's expense.

X. Product Liability

Due to the increased incidence of suit for injuries sustained by the consumer of a product and the ability of the consumer to reach through the immediate supplier to the manufacturer and, perhaps, ultimately to the inventing entity, it is advisable to ensure indemnification by the licensee for all liability for damage or injury resulting from the licensee's use of the invention.

XI. Assignment

It is important that the university retain some degree of control over the licensee's right to assign the license agreement to a third party. This is advisable since the university entered into the agreement initially with the licensee based on the licensee's support of the research or on its perceived capability of transferring the technology. Some agreements contain an absolute prohibition on assignment, although the sample agreement provides for assignment within the restrictions and limitations set forth.

XII. Non-use of names

This clause is self-explanatory and normally includes both the name of the university and the names of the inventors. As in research agreements, the purpose here is to prevent a licensee from benefitting commercially from use of the university's name and reputation.

XIII. Export control regulations

This clause warns the licensee that it is the responsibility of the licensee to comply with all of the export control regulations of the U.S. Government in any export of technical data or products under the license agreement. This clause provides valuable protection for the university and should always be included.

OTHER CLAUSES (XIV - XV)

The remaining clauses are for housekeeping and administrative purposes and parallel those normally contained in any research contract under such headings as:

A. Payments and notices

B. Governing law

C. Severability

D. Entire agreement

SAMPLE

LICENSE AGREEMENT

This Agreement, made and entered into this day of , 198 , (the Effective Date) by and between MASSACHUSETTS INSTITUTE OF TECHNOLOGY, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts and having its principal office at 77 Massachusetts Avenue, Cambridge, Massachusetts 02139 U.S.A. (hereinafter referred to as M.I.T.), and <company>, a corporation duly organized under the laws of <state> and having its principal office at <address> (hereinafter referred to as LICENSEE).

WITNESSETH

WHEREAS, M.I.T. is the owner of certain "Patent Rights" (as later defined herein) relating to <information> and has the right to grant licenses under said Patent Rights, subject only to a royalty-free, nonexclusive license heretofore granted to the United States Government;

WHEREAS, M.I.T. desires to have the Patent Rights utilized in the public interest and is willing to grant a license thereunder; and

WHEREAS, LICENSEE has represented to M.I.T., to induce M.I.T. to enter into this Agreement, that the LICENSEE is experienced in the development, production, manufacture, marketing and sale of products similar to the "Licensed Product(s)" (as later defined herein) and/or the use of the "Licensed Process(es)" (as later defined herein) and that it shall commit itself to a thorough, vigorous and diligent program of exploiting the Patent Rights so that public utilization shall result therefrom; and

WHEREAS, LICENSEE desires to obtain a license under the Patent Rights upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained herein, the parties hereto agree as follows:

ARTICLE I - DEFINITIONS

For the purposes of this Agreement, the following words and phrases shall have the following meanings:

1.1 "LICENSEE" shall mean <company> and any subsidiary of <company>.

1.2 "Subsidiary" shall mean any corporation, company or other entity more than fifty percent (50%) of whose voting stock is owned or controlled directly or indirectly by <company>.

1.3 "Patent Rights" shall mean the United States and Foreign pending patent applications set forth in Appendix <appendix> attached hereto and made a part hereof (hereinafter referred to as the "Patent Rights Patent Application(s)"), and the United States patents and Foreign patents issuing from said pending United States and Foreign patent applications or later-filed foreign applications based upon any of said United States patents and applications (hereinafter referred to as the "Patent Rights Patent(s)") and any continuations, continuations-in-part, divisions, reissues or extensions of any of the foregoing.

1.4 "Licensed Product(s)" shall mean <product description> which:

(a) is covered in whole or in part by (i) a pending claim contained in a Patent Rights Patent Application in the country in which the Licensed Product(s) is made, used or sold or (ii) a valid and unexpired claim contained in a Patent Rights Patent in the country in which the Licensed Product(s) is made, used or sold.

(b) is manufactured by using a process which is covered in whole or in part by (i) a pending claim contained in a Patent Rights Patent Application in the country in which the Licensed Process(es) is used or (ii) a valid or unexpired claim contained in a Patent Rights Patent in the country in which the Licensed Process(es) is used.

1.5 "Licensed Process(es)" shall mean a process for making <process description> which is covered in whole or in part by (i) a pending claim contained in a Patent Rights Patent Application or (ii) a valid and unexpired claim contained in a Patent Rights Patent.

ARTICLE II - GRANT

2.1 M.I.T. hereby grants to LICENSEE a worldwide right and license to make, have made, use, lease and sell the Licensed Product(s) under the Patent Rights, and to practice the Licensed Process(es) to the full end of the term for which the Patent Rights are granted unless sooner terminated as hereinafter provided.

2.2 In order to establish a period of exclusivity for LICENSEE, M.I.T. hereby agrees that it shall not grant any other license to make, have made, use, lease and sell the Licensed Product(s) or to utilize the Licensed Process(es) during the period of time commencing with the Effective Date of this Agreement and terminating with the first to occur of:

(a) The expiration of <year A> years after the first commercial sale of a Licensed Product or first commercial use of a Licensed Process; or,

(b) The expiration of <year B> years after the Effective Date of this Agreement.

2.3 At the end of the exclusive period, the license granted hereunder shall become nonexclusive and shall extend to the full end of the.. term or terms for which the Patent Rights are issued, unless sooner terminated as hereinafter provided.

2.4 LICENSEE shall have the right to sublicense worldwide any of the rights, privileges and license granted hereunder only during the exclusive period of this Agreement.

2.5 LICENSEE hereby agrees that every sublicensing agreement to which it shall be a party and which shall relate to the rights, privileges and license granted hereunder shall contain a statement setting forth the date upon which LICENSEE's exclusive rights, privileges and license hereunder shall terminate.

2.6 LICENSEE agrees that any sublicenses granted by it shall have privity of contract between M.I.T. and sublicensee such that the obligations of this Agreement shall be binding upon the sublicensee as if it were in the place of LICENSEE. LICENSEE further agrees to attach copies of Articles II, V, VII, IX, X, XII, XIII, and XV of this Agreement to all sublicense agreements.

2.7 LICENSEE agrees to forward to M.I.T. a copy of any and all fully executed sublicense agreements, and further agrees to forward to M.I.T. annually a copy of such reports received by LICENSEE from its sublicensees during the preceding twelve (12) month period under the sublicenses as shall be pertinent to a royalty accounting under said sublicense agreements.

ARTICLE III - DUE DILIGENCE

3.1 LICENSEE shall use its best efforts to bring the Licensed Product(s) and/or Licensed Process(es) to market through a thorough, vigorous and diligent program for exploitation of the Patent Rights.

3.2 In addition, LICENSEE shall adhere to the following milestones:

(a) Deliver evidence to M.I.T. within <months A> months from the Effective Date of this Agreement of the amount of money, number and kind of personnel and time budgeted and planned for each phase of development of the Licensed Product(s) and/or Licensed Process(es).

(b) Develop a working model within <months B> months from the Effective Date of this Agreement and permit an in-plant inspection by M.I.T. within <months C> months from the Effective Date of this Agreement, and thereafter permit in-plant inspections by M.I.T. at regular intervals with at least <months D> months between each such inspection.

(c) Make a first commercial sale of a Licensed Product and/or a first commercial use of a Licensed Process within <months E> months from the Effective Date of this Agreement

<(d) Other milestones depending on invention being licensed.>

3.3 LICENSEE's failure to perform in accordance with Paragraphs 3.1 and 3.2 above shall be grounds for M.I.T. to terminate this Agreement pursuant to Paragraph 7.3 hereof.

ARTICLE IV - ROYALTIES

4.1 For the rights, privileges and license granted hereunder, LICENSEE shall pay to M.I.T. in the manner hereinafter provided to the end of the term of the Patent Rights or until this Agreement shall be terminated as hereinafter provided:

(a) A license issue fee of <license issue fee> Dollars, which said license issue fee shall be deemed earned and due immediately upon the execution of this Agreement.

(b) During the period of exclusivity, a royalty in an amount equal to <royalty percent> percent of the Net Sales Price of the Licensed Product(s) used, leased or sold by or for LICENSEE or its sublicensees.

(c) During the period of nonexclusivity, a royalty in an amount equal to <second royalty percent> percent of the Net Sales Price of the Licensed Product(s) used, leased or sold by or for LICENSEE or its sublicensees.

(d) In the event that LICENSEE's royalty payment to M.I.T. hereunder for licensed operation during the calendar year <calendar year> and each year thereafter during the exclusive period falls below <annual minimum amount> Dollars, LICENSEE shall, with its last report for said years, pay to M.I.T., in addition to the royalty payments provided in the foregoing paragraphs, an amount sufficient to the above annual amounts.

<(e) Royalty rates for the Licensed Process(es) shall be as negotiated.>

4.2 As used herein, the phrase "Net Sales Price" shall mean LICENSEE's billings for the Licensed Product(s) produced hereunder less the sum of the following:

(a) Discounts allowed in amounts customary in the trade;

(b) Sales, tariff duties and/or use taxes directly imposed and with reference to particular sales;

(c) Outbound transportation prepaid or allowed; and

(d) Amounts allowed or credited on returns.

No deductions shall be made for commissions paid to individuals whether they be with independent sales agencies or regularly employed by LICENSEE and on its payroll, or for cost of collections. Licensed Product(s) shall be considered "sold" when billed out or invoiced.

4.3 No multiple royalties shall be payable because the Licensed Product(s), its manufacture, lease or sale are or shall be covered by more than one patent application or patent licensed under this Agreement.

4.4 Royalty payments shall be paid in United States dollars in Cambridge, Massachusetts, or at such other place as M.I.T. may reasonably designate consistent with the laws and regulations controlling in any foreign country. Any withholding taxes which LICENSEE or any sublicensee shall be required by law to withhold on remittance of the royalty payments shall be deducted from royalty paid to M.I.T. LICENSEE shall furnish M.I.T. the original copies of all official receipts for such taxes. If any currency conversion shall be required in connection with the payment of royalties hereunder, such conversion shall be made by using the exchange rate prevailing at a first-class foreign exchange bank on the last business day of the calendar quarterly reporting period to which such royalty payments relate.

ARTICLE V - REPORTS AND RECORDS

5.1 LICENSEE shall keep full, true and accurate books of account containing all particulars that may be necessary for the purpose of showing the amount payable to M.I.T. by way of royalty as aforesaid. Said books of account shall be kept at LICENSEE's principal place of business or the principal place of business of the appropriate Division of LICENSEE to which this Agreement relates. Said books and the supporting data shall be open at all reasonable times, for five (5) years following the end of the calendar year to which they pertain, to the inspection of the M.I.T. Internal Audit Division and/or an independent certified public accountant retained by M.I.T. and/or a certified public accountant employed by M.I.T., for the purpose of verifying LICENSEE's royalty statement or compliance in other respects with this Agreement.

5.2 LICENSEE, within thirty (30) days after March 31, June 30, September 30 and December 31, of each year, shall deliver to M.I.T. true and accurate reports, giving such particulars of the business conducted by LICENSEE during the preceding three-month period under this Agreement as shall be pertinent to a royalty accounting hereunder. These shall include at least the following:

(a) All Licensed Products manufactured and sold.

(b) Total billings for Licensed Product sold.

(c) Accounting for all the Licensed Process(es) used or sold.

(d) Deductions applicable as provided in Paragraph 4.2.

(e) Total royalties due.

(f) Names and addresses of all sublicensees of LICENSEE.

(g) Licensed Products manufactured and sold to the United States Government. (No royalty obligations shall arise due to use by, for or on behalf of the United States Government in view of the royalty-free, nonexclusive license heretofore granted to the United States Government).

(h) Annually, the LICENSEE's certified financial statements for the preceding twelve (12) months including, at a minimum, a Balance Sheet and an Operating Statement.

5.3 With each such report submitted, LICENSEE shall pay to M.I.T. the royalties due and payable under this Agreement. If no royalties shall be due, LICENSEE shall so report.

ARTICLE VI - PATENT PROSECUTION

6.1 M.I.T. shall apply for, shall seek prompt issuance of, and maintain during the term of this Agreement the Patent Rights set forth in Appendix A. The prosecution and maintenance of all Patent Rights Patents and Applications shall be the primary responsibility of M.I.T.; provided, however, LICENSEE shall have reasonable opportunities to advise M.I.T. and shall cooperate with M.I.T. in such prosecution and/or maintenance.

<6.2 Payment of all fees and costs relating to the prosecution and maintenance of the existing Patent Rights set forth in Appendix A or additional foreign or domestic filings under the Patent Rights shall be as negotiated by the parties.>

ARTICLE VII - TERMINATION

7.1 If LICENSEE shall become bankrupt or insolvent, or shall file a petition in bankruptcy, or if the business of LICENSEE shall be placed in the hands of a receiver, assignee or trustee for the benefit of creditors, whether by the voluntary act of LICENSEE or otherwise, this Agreement shall automatically terminate.

7.2 Should LICENSEE fail in its payment to M.I.T. of royalties due in accordance with the terms of this Agreement, M.I.T. shall have the right to serve notice upon LICENSEE by certified mail at the address designated in Article XIV hereof, of its intention to terminate this Agreement within thirty (30) days after receipt of said notice of termination unless LICENSEE shall pay to M.I.T., within the thirty (30) day period, all such

royalties due and payable. Upon the expiration of the thirty (30) day period, if LICENSEE shall not have paid all such royalties due and payable, the rights, privileges and license granted hereunder shall thereupon immediately terminate.

7.3 Upon any material breach or default of this Agreement by LICENSEE, other than those occurrences set out in Paragraphs 7.1 and 7.2 hereinabove, which shall always take precedence in that order over any material breach or default referred to in this Paragraph 7.3, M.I.T. shall have the right to terminate this Agreement and the rights, privileges and license granted hereunder by ninety (90) days' notice by certified mail to LICENSEE. Such termination shall become effective unless LICENSEE shall have cured any such breach or default prior to the expiration of the ninety (90) day period from receipt of M.I.T.'s notice of termination.

7.4 LICENSEE shall have the right to terminate this Agreement at any time on six (6) months' notice by certified mail to M.I.T.

7.5 Upon termination of this Agreement for any reason, nothing herein shall be construed to release either party from any obligation that matured prior to the effective date of such termination. LICENSEE and/or any sublicensee thereof may, however, after the effective date of such termination, sell all Licensed Products, and complete Licensed Products in the process of manufacture at the time of such termination and sell the same, provided that LICENSEE shall pay to M.I.T. the royalties thereon as required by Article IV of this Agreement and shall submit the reports required by Article V hereof on the sales of Licensed Products.

ARTICLE VIII - ARBITRATION

8.1 Except as to issues relating to the validity, construction or effect of any patent licensed hereunder, any and all claims, disputes or controversies arising under, out of, or in connection with this Agreement, which have not been resolved by good faith negotiations between the parties, shall be resolved by final and binding arbitration in Boston, Massachusetts under the rules of the American Arbitration Association then obtaining. The arbitrators shall have no power to add to, subtract from or modify any of the terms or conditions of this Agreement. Any award rendered in such arbitration may be enforced by either party in either the courts of the Commonwealth of Massachusetts or in the United States District Court for the Eastern District of Massachusetts, to whose jurisdiction for such purposes M.I.T. and LICENSEE each hereby irrevocably consents and submits.

8.2 Claims, disputes or controversies concerning the validity, construction or effect of any patent licensed hereunder shall be resolved in any court having jurisdiction thereof.

8.3 In the event that, in any arbitration proceeding, any issue shall arise concerning the validity, construction or effect of any patent licensed hereunder, the arbitrators shall assume the validity of all claims as set forth in such patent; in any event the arbitrators shall not delay the arbitration proceeding for the purpose of obtaining or permitting

either party to obtain judicial resolution of such issue, unless an order staying such arbitratio n proceeding shall be entered by a court of competent jurisdiction. Neither party shall raise any issue concerning the validity, construction or effect of any patent licensed hereunder in any proceeding to enforce any arbitration award hereunder or in any proceeding otherwise arising out of any such arbitration award.

ARTICLE IX - INFRINGEMENT

9.1 LICENSEE and M.I.T. shall promptly inform the other in writing of any alleged infringement of which it shall have notice by a third party of any patents within the Patent Rights and provide such other with any available evidence of infringement.

9.2 During the term of this Agreement, M.I.T. shall have the right, but shall not be obligated, to prosecute at its own expense any such infringements of the Patent Rights and, in furtherance of such right, LICENSEE hereby agrees that M.I.T. may join LICENSEE as a party plaintiff in any such suit, without expense to LICENSEE. The total cost of any such infringement action commenced or defended solely by M.I.T. shall be borne by M.I.T., and M.I.T. shall keep any recovery or damages for past infringement derived therefrom.

9.3 If within six (6) months after having been notified of any alleged infringement, M.I.T. shall have been unsuccessful in persuading the alleged infringer to desist and shall not have brought and shall not be diligently prosecuting an infringement action, or if M.I.T. shall notify LICENSEE at any time prior thereto of its intention not to bring suit against any alleged infringer, then, and in those events only, LICENSEE shall have the right, but shall not be obligated, to prosecute at its own expense any infringement of the Patent Rights, and LICENSEE may, for such purposes, use the name of M.I.T. as party plaintiff; provided, however, that such right to bring an infringement action shall remain in effect only for so long as the license granted herein remains exclusive. No settlement, consent judgement or other voluntary final disposition of the suit may be entered into without the consent of M.I.T., which consent shall not unreasonably be withheld. LICENSEE shall indemnify M.I.T. against any order for costs that may be made against M.I.T. in such proceedings.

9.4 In the event that LICENSEE shall undertake the enforcement and/or defense of the Patent Rights by litigation, LICENSEE may withhold up to fifty percent (50%) of the royalties otherwise thereafter due M.I.T. hereunder and apply the same toward reimbursement of its expenses, including reasonable attorneys' fees, in connection therewith. Any recovery of damages by LICENSEE for any such suit shall be applied first in satisfaction of any unreimbursed expenses and legal fees of LICENSEE relating to the suit, and next toward reimbursement of M.I.T. for any royalties past due or withheld and applied pursuant to this Article IX. The balance remaining from any such recovery shall be divided equally between LICENSEE and M.I.T.

9.5 In the event that a declaratory judgement action alleging invalidity or non-infringement of any of the Patent Rights shall be brought

against LICENSEE, M.I.T., at its option, shall have the right, within thirty (30) days after commencement of such action, to intervene and take over the sole defense of the action at its own expense.

9.6 In any infringement suit as either party may institute to enforce the Patent Rights pursuant to this Agreement, the other party hereto shall, at the request and expense of the party initiating such suit, cooperate in all respects and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples, specimens, and the like.

9.7 LICENSEE, during the exclusive period of this Agreement, shall have the sole right in accordance with the terms and conditions herein to sublicense any alleged infringer under the Patent Rights for future infringements.

ARTICLE X - PRODUCT LIABILITY

LICENSEE shall at all times during the term of this Agreement and thereafter, indemnify, defend and hold M.I.T., its trustees, officers, employees and affiliates, harmless against all claims and expenses, including legal expenses and reasonable attorneys' fees, arising out of the death of or injury to any person or persons or out of any damage to proerty and against any other claim, proceeding, demand, expense and liability of any kind whatsoever resulting from the production, manufacture, sales, use, consumption or advertisement of the Licensed Product(s) and/or Licensed Process(es) or arising from any obligation of LICENSEE hereunder.

ARTICLE XI - ASSIGNMENT

LICENSEE may assign or otherwise transfer this Agreement and the license granted hereby and the rights acquired by it hereunder so long as such assignment or transfer shall be accompanied by a sale or other transfer of LICENSEE's entire business or of that part of LICENSEE's business to which the license granted hereby relates. LICENSEE shall give M.I.T. thirty (30) days prior notice of such assignment and transfer and if M.I.T. raises no reasonable objection to such assignment or transfer, in writing within thirty (30) days after the giving of such notice and stating the reasons for such objection, then M.I.T. shall be deemed to have approved such assignment or transfer; provided, however, M.I.T. shall not be deemed to have approved such assignment and transfer unless such assignee or transferee shall have agreed in writing to be bound by the terms and conditions of this Agreement. Upon such assignment or transfer and agreement by such assignee or transferee, the term LICENSEE as used herein shall include such assignee or transferee. If LICENSEE shall sell or otherwise transfer its entire business or that part of its business to which the license granted hereby relates and the transferee shall not have agreed in writing to be bound by the terms and conditions of this Agreement, or new terms and conditions shall not have been agreed upon within sixty (60) days of such sale or transfer, M.I.T. shall have the right to terminate this Agreement.

ARTICLE XII - NON-USE OF NAMES

LICENSEE shall not use the names of Massachusetts Institute of Technology nor of <inventors> nor any adaptation thereof in any advertising, promotional or sales literature without prior written consent obtained from M.I.T. in each case, except that LICENSEE may state that it is licensed by M.I.T. under one or more of the patents and/or applications comprising the Patent Rights.

ARTICLE XIII - EXPORT CONTROLS

It is understood that M.I.T. is subject to United States laws and regulations controlling the export of technical data, computer software, laboratory prototypes and other commodities (including the Arms Export Control Act, as amended, and the Export Administration Act of 1979), and that its obligations hereunder are contingent on compliance with applicable United States export laws and regulations. The transfer of certain technical data and commodities may require a license from the cognizant agency of the United States Government and/or written assurances by LICENSEE that LICENSEE shall not export data or commodities to certain foreign countries without prior approval of such agency. M.I.T. neither represents that a license shall not be required nor that, if required, it shall be issued.

ARTICLE XIV - PAYMENTS, NOTICES AND OTHER COMMUNICATIONS

Any payment, notice or other communication pursuant to this Agreement shall be sufficiently made or given on the date of mailing if sent to such party by certified first class mail, postage prepaid, addressed to it at its address below or as it shall designate by written notice given to the other party:

In the case of M.I.T.:

Patent, Copyright and Licensing Office
Massachusetts Institute of Technology
77 Massachusetts Avenue, Room E19-722
Cambridge, Massachusetts 02139

In the case of LICENSEE:

<company>
<address>

ARTICLE XV - MISCELLANEOUS PROVISIONS

15.1 This Agreement shall be construed, governed, interpreted and applied in accordance with the laws of the Commonwealth of Massachusetts, U.S.A., except that questions affecting the construction and effect of any patent shall be determined by the law of the country in which the patent was granted.

15.2 The parties hereto acknowledge that this Agreement sets forth the entire Agreement and understanding of the parties hereto as to the subject matter hereof, and shall not be subject to any change or modification except by the execution of a written instrument subscribed to by the parties hereto.

15.3 The provisions of this Agreement are severable, and in the event that any provision of this Agreement shall be determined to be invalid or unenforceable under any controlling body of law, such invalidity or unenforceability shall not in any way affect the validity or enforceability of the remaining provisions hereof.

15.4 LICENSEE agrees to mark the Licensed Products sold in the United States with all applicable United States patent numbers. All Licensed Products shipped to or sold in other countries shall be marked in such a manner as to conform with the patent laws and practice of the country of manufacture or sale.

15.5 The failure of either party to assert a right hereunder or to insist upon compliance with any term or condition of this Agreement shall not constitute a waiver of that right or excuse a similar subsequent failure to perform any such term or condition by the other party.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals and duly executed this License Agreement the day and year first set forth below.

Attest:

_____

Title_____

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

By_____

Title_____

Date_____

Attest:

_____

Title_____

<company>

By_____

Title_____

Date_____

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NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

THE LAW OF COPYRIGHTS

Workshop Materials - NCURA Intellectual Property Series - 1984

Title	Unit
Patents and Patent Rights	1
Patent Rights under Government Contracts	2
University Patent Policies and Practices	3
Patent Clauses in Industrial Research Agreements	4
Patent License Agreements	5
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Introduction to

THE LAW OF COPYRIGHTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

THE LAW OF COPYRIGHTS

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1. INTRODUCTION

On October 19, 1976, the copyright law of the United States was revised with the passage of Public Law 94-553, the first revision of the law since 1911. This public law significantly changes many of the substantive concepts of the copyright law in a manner which has direct application to the university community.

Copyright law is a complex topic. However, the university research administrator should, at minimum, have a general understanding of the subject matter of copyrights, the exclusive rights in copyrighted works, and the limitations on those exclusive rights which are reflected in the "fair use" doctrine. These topics are addressed in the materials which follow and should be read in the order listed.

1. Copyright Basics, Circular R1, issued by the U.S. Copyright Office and reproduced hereafter provides an introduction to the law of copyrights and to the Copyright Office, its procedures and forms.

2. Highlights of the New Copyright Law, Circular R99, issued by the U.S. Copyright Office and reproduced hereafter provides a useful comparison of the principal features of the new Act and the pre-existing law.

3. Copyright Act of 1976 (P.L. 94-553). The sections of the Act most pertinent to this course are reproduced hereafter for reference.

4. General Guide to the Copyright Act of 1976, by Marybeth Peters, Senior Attorney-Adviser to the U.S. Copyright Office is an easy to read overview of the Act. It was prepared as instructional material for training the copyright office staff. Although not an official summary of the law, it is a useful and practical guide for the layperson who wishes to gain a basic understanding of its provisions. The chapters most pertinent to this NCURA material are underlined in the Table of Contents reproduced hereafter.

5. Publications of the Copyright Office, Circular R2, lists publications available from the U.S. Copyright Office and other sources, with instructions on how to order them. Reading the list of publications, including the various Congressional reports, gives one a feel for the breadth and depth of copyright law and its administration.

THE COPYRIGHT LAW AND ITS EFFECT ON UNIVERSITY COPYRIGHT POLICIES

Of the many changes introduced by the new copyright law three have the most visible and direct effect on the duties and responsibilities of research administrators within the university:

1. The doctrine of work made for hire;
2. The treatment of computer software within the new law; and
3. The definition of "fair use."

1. Work made for hire

Secton 201 (a) of the Act states that copyright vests initially in the "author" of the work. In the case of a "work made for hire," the employer or other person for whom the work was prepared is considered the author and, unless expressly agreed otherwise by the parties in writing, is the copyright owner.

The Act defines "work made for hire" as:

> "1. A work prepared by an employee within the scope of his or her own employment;"
>
> "2. A work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire..." (See Section 101.)

Under the new law, therefore, any work prepared by an employee of the university within the scope of his or her employment is a work made for hire and is owned by the university. This is clearest with respect to data generated by faculty, staff or student employees in the performance of a sponsored research program or while utilizing facilities or fundings administered by the university, provided such use is not de minimus. On the other hand, it seems equally clear that a member of the university community who generates data without utilizing administered equipment, funding or facilities and does not participate in a sponsored research program, retains both the authorship and ownership of such data.

There are, however, a large number of individuals associated with most universities (unpaid visiting scientists, fellows, students who may or may not receive some form of funding through the university while doing thesis research, etc.) who, depending on the facts of the situation, may or may not under the law be viewed as employees performing work within the

scope of their employment. Many of these uncertainties can only be resolved by ensuring that there is a written agreement between the parties under which the data generated constitutes a work made for hire if the work performed falls within the definition of "work MADE? for hire" in Section 101 of the Copyright Law, or which provides for the transfer of copyright from the non-employee to the institution if the work is not a statutory "work MADE??? for hire.". Universities approach this issue differently, as will be seen from a comparison of sample policies.

2. Copyrighting computer software

While the original version of the 1976 Copyright Act made no reference to computer software as such, Section 101 of Title 17 of the U.S. Code was specifically amended in 1980 to include a definition of "computer program." In addition, Section 117, which addressed whether a copyright owner had greater or lesser rights with respect to an automatic storing, processing or retrieval system than to other works protected under Title 17, was amended by deleting reference to such automatic systems and providing instead for a limitation on the exclusive rights of the copyright owner of a computer program.

It is, therefore, clear that the statute is intended to extend copyright protection to computer software and, in fact, the various instructions issued by the Copyright Office for registration of literary works, specifically include instructions for the registration of computer programs.

3. Fair use

Section 107 of the Act recognizes and allows the "fair use" of a copyrighted work for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research. In determining whether the use of a particular work in a particular case is fair use, the statute lists the following factors to be considered:

1. The purpose and character of the use, including whether such use is of a commmercial nature or is for nonprofit educational purposes;

2. The nature of the copyrighted work;

3. The amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

4. The effect of the use upon the potential market for or value of the copyrighted work.

As a corollary to the doctrine of fair use, there is also a limited reproduction right allowed libraries and archives under Section 108. Research administrators who are responsible for approving extracts from copyrighted works or whose responsibility extends to the library system in any way should become familiar with these sections of the statute.

Circular R1

Copyright Basics

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Copyright Basics

On January 1, 1978, the Copyright Act of 1976 (title 17 of the United States Code) came into effect. This general revision of the copyright law of the United States, the first such revision since 1909, makes important changes in our copyright system and supersedes the previous Federal copyright statute. For highlights of the overall changes in the copyright law, request Circular R99 from the Copyright Office.

WHAT COPYRIGHT IS

Copyright is a form of protection provided by the laws of the United States (title 17, U.S. Code) to the authors of "original works of authorship" including literary, dramatic, musical, artistic, and certain other intellectual works. This protection is available to both published and unpublished works. Section 106 of the Copyright Act generally gives the owner of copyright the exclusive right to do and to authorize others to do the following:

- *To reproduce* the copyrighted work in copies or phonorecords;
- *To prepare derivative works* based upon the copyrighted work;
- *To distribute copies or phonorecords* of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;
- *To perform the copyrighted work publicly,* in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, and
- *To display the copyrighted work publicly,* in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work.

It is illegal for anyone to violate any of the rights provided to the owner of copyright by the Act. These rights, however, are not unlimited in scope. Sections 107 through 118 of the Copyright Act establish limitations on these rights. In some cases, these limitations are specified exemptions from copyright liability. One major limitation is the doctrine of "fair use," which is now given a statutory basis by section 107 of the Act. In other instances, the limitation takes the form of a "compulsory license" under which certain limited uses of copyrighted works are permitted upon payment of specified royalties and compliance with statutory conditions. For further information about the limitations of any of these rights, consult the Copyright Act or write to the Copyright Office.

WHO CAN CLAIM COPYRIGHT

Copyright protection subsists from the time the work is created in fixed form; that is, it is an incident of the process of authorship. The copyright in the work of authorship ***immediately*** becomes the property of the author who created it. Only the author or those deriving their rights through the author can rightfully claim copyright.

In the case of works made for hire, the employer and not the employee is presumptively considered the author. Section 101 of the copyright statute defines a "work made for hire" as:

> (1) a work prepared by an employee within the scope of his or her employment; or
>
> (2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. . . .

The authors of a joint work are co-owners of the copyright in the work, unless there is an agreement to the contrary.

Copyright in each separate contribution to a periodical or other collective work is distinct from copyright in the collective work as a whole and vests initially with the author of the contribution.

Two General Principles

- Mere ownership of a book, manuscript, painting, or any other copy or phonorecord does not give the possessor the copyright. The law provides that transfer of ownership of any material object that embodies a protected work does not of itself convey any rights in the copyright.

- Minors may claim copyright, but state laws may regulate the business dealings involving copyrights owned by minors. For information on relevant state laws, it would be well to consult an attorney.

COPYRIGHT AND NATIONAL ORIGIN OF THE WORK

Copyright protection is available for all unpublished works, regardless of the nationality or domicile of the author.

Published works are eligible for copyright protection in the United States if any one of the following conditions is met:

- On the date of first publication, one or more of the authors is a national or domiciliary of the United States or is a national, domiciliary, or sovereign authority of a foreign nation that is a party to a copyright treaty to which the United States is also a party, or is a stateless person wherever that person may be domiciled; or
- The work is first published in the United States or in a foreign nation that, on the date of first publication, is a party to the Universal Copyright Convention; or the work comes within the scope of a Presidential proclamation.

THE MANUFACTURING CLAUSE

The manufacturing clause in the copyright law, section 601 of the 1976 Copyright Act (title 17, U.S. Code), was extended by Congress in July 1982 until July 1, 1986; without this congressional action, the manufacturing provisions in the copyright law would have expired on July 1, 1982.

The manufacturing clause applies only to published works, primarily textual, written by United States authors or domiciliaries. The provisions require that copies of a work "consisting preponderantly of nondramatic literary material that is in the English language" be manufactured in the United States or Canada in order to be lawfully imported and publicly distributed in the United States. There are several exceptions to the provisions; they relate to three general categories: the nature of the work, the processes used to manufacture the copies, or certain facts existing at the time of importation or distribution of copies in the United States. One of the exceptions of the third type provides for the issuance of an Import Statement which will permit the importation of up to 2,000 copies of a foreign edition when certain conditions are met.

For further information on the issuance of import statements (Form IS), please write to:

Information and Publications Section, LM-455
Copyright Office
Library of Congress
Washington, D.C. 20559

WHAT WORKS ARE PROTECTED

Copyright protection exists for "original works of authorship" when they become fixed in a tangible form of expression. The fixation does not need to be directly perceptible, so long as it may be communicated with the aid of a machine or device. Copyrightable works include the following categories:

(1) literary works;
(2) musical works, including any accompanying words;
(3) dramatic works, including any accompanying music;
(4) pantomimes and choreographic works;
(5) pictorial, graphic, and sculptural works;
(6) motion pictures and other audiovisual works; and
(7) sound recordings.

This list is illustrative and is not meant to exhaust the categories of copyrightable works. These categories should be viewed quite broadly so that, for example, computer programs and most "compilations" are registrable as "literary works"; maps and architectural blueprints are registrable as "pictorial, graphic, and sculptural works."

WHAT IS NOT PROTECTED BY COPYRIGHT

Several categories of material are generally not eligible for statutory copyright protection. These include among others:

- Works that have *not* been fixed in a tangible form of expression. For example: choreographic works which have not been notated or recorded, or improvisational speeches or performances that have not been written or recorded.
- Titles, names, short phrases, and slogans; familiar symbols or designs; mere variations of typographic ornamentation, lettering, or coloring; mere listings of ingredients or contents.
- Ideas, procedures, methods, systems, processes, concepts, principles, discoveries, or devices, as distinguished from a description, explanation, or illustration.

BEST COPY AVAILABLE

- Works consisting *entirely* of information that is common property and containing no original authorship. For example: standard calendars, height and weight charts, tape measures and rules, and lists or tables taken from public documents or other common sources.

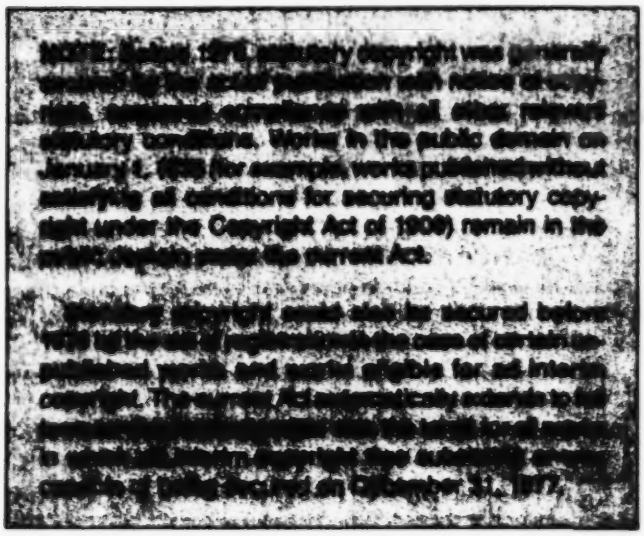
HOW TO SECURE A COPYRIGHT

Copyright Secured Automatically Upon Creation

The way in which copyright protection is secured under the present law is frequently misunderstood. No publication or registration or other action in the Copyright Office is required to secure copyright under the present law, unlike the previous law, which required either publication with the copyright notice or registration in the Copyright Office (see NOTE below). There are, however, certain definite advantages to registration. (See page 9.)

Under the present law, copyright is secured *automatically* when the work is created, and a work is "created" when it is fixed in a copy or phonorecord for the first time. In general, "copies" are material objects from which a work can be read or visually perceived either directly or with the aid of a machine or device, such as books, manuscripts, sheet music, film, videotape, or microfilm. "Phonorecords" are material objects embodying fixations of sounds (excluding, by statutory definition, motion picture soundtracks), such as audio tapes and phonograph disks. Thus, for example, a song (the "work") can be fixed in sheet music ("copies") or in phonograph disks ("phonorecords"), or both.

If a work is prepared over a period of time, the part of the work existing in fixed form on a particular date constitutes the created work as of that date.



PUBLICATION

Publication is no longer the key to obtaining statutory copyright as it was under the Copyright Act of 1909. However, publication remains important to copyright owners.

The Copyright Act defines publication as follows:

> "Publication" is the distribution of copies or phonorecords of a work to the public by sale or other transfer of ownership, or by rental, lease, or lending. The offering to distribute copies or phonorecords to a group of persons for purposes of further distribution, public performance, or public display, constitutes publication. A public performance or display of a work does not of itself constitute publication.

A further discussion of the definition of "publication" can be found in the legislative history of the Act. The legislative reports define "to the public" as distribution to persons under no explicit or implicit restrictions with respect to disclosure of the contents. The reports state that the definition makes it clear that the sale of phonorecords constitutes publication of the underlying work, for example, the musical, dramatic, or literary work embodied in a phonorecord. The reports also state that it is clear that any form of dissemination in which the material object does not change hands, for example, performances or displays on television, is *not* a publication no matter how many people are exposed to the work. However, when copies or phonorecords are offered for sale or lease to a group of wholesalers, broadcasters, or motion picture theaters, publication does take place if the purpose is further distribution, public performance, or public display.

Publication is an important concept in the copyright law because upon publication, several significant consequences follow. Among these are:

- When a work is published, all published copies should bear a notice of copyright. (See discussion below of "notice of copyright.")
- Works that are published with notice of copyright in the United States are subject to mandatory deposit with the

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Library of Congress. (See discussion on page 10 on "mandatory deposit.")

- Publication of a work can affect the limitations on the exclusive rights of the copyright owner that are set forth in sections 107 through 118 of the law.
- The year of publication is used in determining the duration of copyright protection for anonymous and pseudonymous works (when the author's identity is not revealed in the records of the Copyright Office) and for works made for hire.
- Deposit requirements for registration of published works differ from those for registration of unpublished works. (See discussion on page 9 of "copyright registration" procedures.)

NOTICE OF COPYRIGHT

When a work is published under the authority of the copyright owner, a notice of copyright should be placed on all publicly distributed copies and on all publicly distributed phonorecords of sound recordings. This notice is required even on works published outside of the United States. Failure to comply with the notice requirement can result in the loss of certain additional rights otherwise available to the copyright owner.

The use of the copyright notice is the responsibility of the copyright owner and does not require advance permission from, or registration with, the Copyright Office.

Form of Notice for Visually Perceptible Copies

The notice for visually perceptible copies should contain all of the following three elements:

1. *The symbol* © (the letter C in a circle), or the word "Copyright," or the abbreviation "Copr."
2. *The year of first publication* of the work. In the case of compilations or derivative works incorporating previously published material, the year date of first publication of the compilation or derivative work is sufficient. The year date may be omitted where a pictorial, graphic, or sculptural work, with accompanying textual matter, if any, is reproduced in or on greeting cards, postcards, stationery, jewelry, dolls, toys, or any useful articles.
3. *The name of the owner of copyright* in the work, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner.

Example: © 1982 John Doe

The "C in a circle" notice is required only on "visually perceptible copies." Certain kinds of works, for example, musical, dramatic, and literary works, may be fixed not in "copies" but by means of sound in an audio recording. Since audio recordings such as audio tapes and phonograph disks are "phonorecords" and not "copies," there is no requirement that the phonorecord bear a "C in a circle" notice to protect the underlying musical, dramatic, or literary work that is recorded.

Form of Notice for Phonorecords of Sound Recordings

The copyright notice for phonorecords of sound recordings* has somewhat different requirements. The notice appearing on phonorecords should contain the following three elements:

- *The symbol* Ⓟ (the letter P in a circle); and
- *The year of first publication* of the sound recording; and
- *The name of the owner of copyright* in the sound recording, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner. If the producer of the sound recording is named on the phonorecord labels or containers, and if no other name appears in conjunction with the notice, the producer's name shall be considered a part of the notice.

Example: Ⓟ1982 A.B.C., Inc.

NOTE: Improper notice could result in some [illegible] of the notice, any [illegible] should not be used without [illegible] advice.

Position of Notice

The notice should be affixed to copies or phonorecords of the work in such a manner and location as to "give reasonable notice of the claim of copyright." The notice on phonorecords may appear on the surface of the phonorecord or on

*Sound recordings are defined as "works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied."

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the phonorecord label or container, provided the manner of placement and location gives reasonable notice of the claim. The three elements of the notice should ordinarily appear together on the copies or phonorecords. The Copyright Office has issued regulations concerning the form and position of the copyright notice in the *Code of Federal Regulations* (37 C.F.R. Part 201); copies of these regulations are available from the Copyright Office as Circular R96 201.20.

Publications Incorporating United States Government Works

Whenever a work is published in copies or phonorecords consisting preponderantly of one or more works of the United States Government, the notice of copyright shall also include a statement identifying, either affirmatively or negatively, those portions of the copies or phonorecords embodying any work or works protected by title 17 of the United States Code.

Unpublished Works

The copyright notice is not required on unpublished works. To avoid an inadvertent publication without notice, however, it may be advisable for the author or other owner of the copyright to affix notices, or a statement such as *Unpublished Work* © 1982 John Doe, to any copies or phonorecords which leave his or her control.

Effect of Omission of the Notice or of Error in the Name or Date

Unlike the law in effect before 1978, the new Copyright Act, in sections 405 and 406, provides procedures for correcting errors and omissions of the copyright notice on works published on or after January 1, 1978.

In general, the omission or error does not automatically invalidate the copyright in a work if registration for the work has been made before or is made within 5 years after the publication without notice, and a reasonable effort is made to add the notice to all copies or phonorecords that are distributed to the public in the United States after the omission has been discovered.

HOW LONG COPYRIGHT PROTECTION ENDURES

Works Originally Copyrighted on or After January 1, 1978

A work that is created (fixed in tangible form for the first time) on or after January 1, 1978, is automatically protected from the moment of its creation, and is ordinarily given a term enduring for the author's life, plus an additional 50 years after the author's death. In the case of "a joint work prepared by two or more authors who did not work for hire," the term lasts for 50 years after the last surviving author's death. For works made for hire, and for anonymous and pseudonymous works (unless the author's identity is revealed in Copyright Office records), the duration of copyright will be 75 years from publication or 100 years from creation, whichever is shorter.

Works that were created before the present law came into effect, but had neither been published nor registered for copyright before January 1, 1978, have been automatically brought under the statute and are now given Federal copyright protection. The duration of copyright in these works will generally be computed in the same way as for works created on or after January 1, 1978: the life-plus-50 or 75/100-year terms will apply to them as well. However, all works in this category are guaranteed at least 25 years of statutory protection.

Works Copyrighted Before January 1, 1978

Under the law in effect before 1978, copyright was secured either on the date a work was published, or on the date of registration if the work was registered in unpublished form. In either case, the copyright endured for a first term of 28 years from the date it was secured. During the last (28th) year of the first term, the copyright was eligible for renewal. The new copyright law has extended the renewal term from 28 to 47 years for copyrights that were subsisting on January 1, 1978, making these works eligible for a total term of protection of 75 years. However, the copyright *must* be timely renewed to receive the 47-year period of added protection. For more detailed information on the copyright term, write to the Copyright Office and request Circulars R15a and R15t. For information on how to search the Copyright Office records concerning the copyright status of a work, ask for Circular R22.

TRANSFER OF COPYRIGHT

Any or all of the exclusive rights, or any subdivision of those rights, of the copyright owner may be transferred, but the transfer of *exclusive* rights is not valid unless that transfer is in writing and signed by the owner of the rights con-

veyed (or such owner's duly authorized agent). Transfer of a right on a nonexclusive basis does not require a written agreement.

A copyright may also be conveyed by operation of law and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

Copyright is a personal property right, and it is subject to the various state laws and regulations that govern the ownership, inheritance, or transfer of personal property as well as terms of contracts or conduct of business. For information about relevant state laws, consult an attorney.

Transfers of copyright are normally made by contract. The Copyright Office does not have or supply any forms for such transfers. However, the law does provide for the recordation in the Copyright Office of transfers of copyright ownership. Although recordation is not required to make a valid transfer as between the parties, it does provide certain legal advantages and may be required to validate the transfer as against third parties. For information on recordation of transfers and other documents related to copyright, write to the Copyright Office for Circular R12.

TERMINATION OF TRANSFERS

Under the previous law, the copyright in a work generally reverted to the author, if living, or if the author was not living, to other specified beneficiaries, provided a renewal claim was registered in the 28th year of the original term. The present law drops the renewal feature except for works already in their first term of statutory protection when the present law took effect. Instead, the present law generally permits termination of a grant of rights after 35 years under certain conditions by serving written notice on the transferee within specified time limits.

For works already under statutory copyright protection, the present law provides a similar right of termination covering the newly added years that extended the former maximum term of the copyright from 56 to 75 years. For further information, write to the Copyright Office for Circulars R15a and R15t.

INTERNATIONAL COPYRIGHT PROTECTION

There is no such thing as an "international copyright" that will automatically protect an author's writings throughout the entire world. Protection against unauthorized use in a particular country depends, basically, on the national laws of that country. However, most countries do offer protection to foreign works under certain conditions, and these conditions have been greatly simplified by international copyright treaties and conventions. For a list of countries which maintain copyright relations with the United States, write to the Copyright Office and ask for Circular R38a.

The United States is a member of the Universal Copyright Convention (the UCC), which came into force on September 16, 1955. Generally, a work by a national or domiciliary of a country that is a member of the UCC or a work first published in a UCC country may claim protection under the UCC. If the work bears the notice of copyright in the form and position specified by the UCC, this notice will satisfy and substitute for any other formalities a UCC member country would otherwise impose as a condition of copyright. A UCC notice should consist of the symbol © accompanied by the name of the copyright proprietor and the year of first publication of the work.

An author who wishes protection for his or her work in a particular country should first find out the extent of protection of foreign works in that country. If possible, this should be done before the work is published anywhere, since protection may often depend on the facts existing at the time of **first** publication.

If the country in which protection is sought is a party to one of the international copyright conventions, the work may generally be protected by complying with the conditions of the convention. Even if the work cannot be brought under an international convention, protection under the specific provisions of the country's national laws may still be possible. Some countries, however, offer little or no copyright protection for foreign works.

COPYRIGHT REGISTRATION

In general, copyright registration is a legal formality intended to make a public record of the basic facts of a particular copyright. However, except in two specific situations,* registration is not a condition of copyright protection.

*Works published with notice of copyright prior to January 1, 1978, must be registered and renewed during the first 28-year term of copyright to maintain protection.

Under sections 405 and 406 of the Copyright Act, copyright registration may be required to preserve a copyright that would otherwise be invalidated because the copyright notice was omitted from the published copies or phonorecords, or the name or year date was omitted, or certain errors were made in the year date.

Even though registration is not generally a requirement for protection, the copyright law provides several inducements or advantages to encourage copyright owners to make registration. Among these advantages are the following:

- Registration establishes a public record of the copyright claim;
- Registration is ordinarily necessary before any infringement suits may be filed in court;
- If made before or within 5 years of publication, registration will establish prima facie evidence in court of the validity of the copyright and of the facts stated in the certificate; and
- If registration is made within 3 months after publication of the work or prior to an infringement of the work, statutory damages and attorney's fees will be available to the copyright owner in court actions. Otherwise, only an award of actual damages and profits is available to the copyright owner.

Registration may be made at any time within the life of the copyright. Unlike the law before 1978, when a work has been registered in unpublished form, it is not necessary to make another registration when the work becomes published (although the copyright owner may register the published edition, if desired).

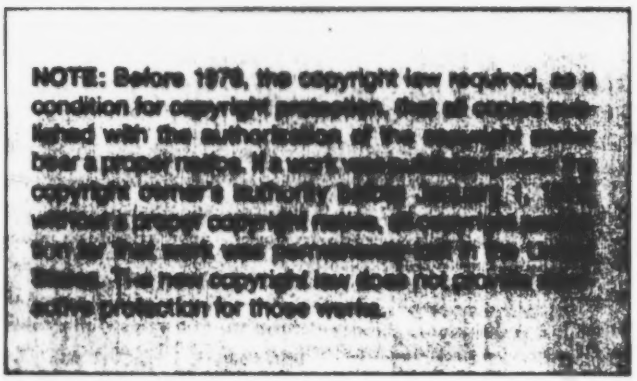
REGISTRATION PROCEDURES

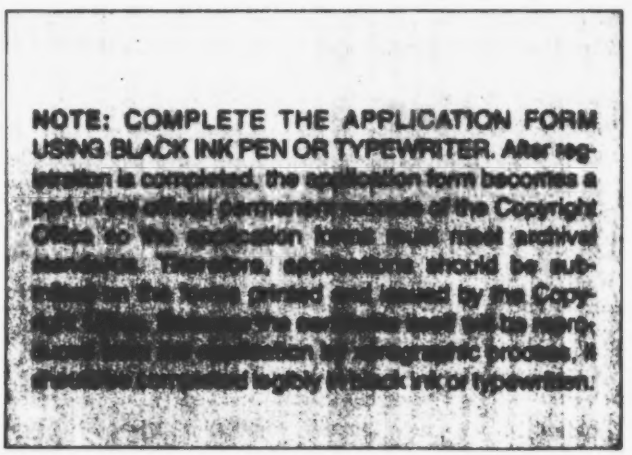
In General

To register a work, send the following three elements to the Copyright Office ***in the same envelope or package*** to the Register of Copyrights, Copyright Office, Library of Congress, Washington, D.C. 20559: (see page 12 for what happens if the elements are sent separately).

1. A properly completed application form;
2. A nonreturnable filing fee of $10 for each application;
3. A deposit of the work being registered. The deposit requirements will vary in particular situations. The general requirements are as follows:

- If the work is unpublished, one complete copy or phonorecord.
- If the work was first published in the United States on or after January 1, 1978, two complete copies or phonorecords of the best edition.
- If the work was first published in the United States before January 1, 1978, two complete copies or phonorecords of the work as first published.
- If the work was first published outside the United States, whenever published, one complete copy or phonorecord of the work as first published.
- If the work is a contribution to a collective work, and published after January 1, 1978, one complete copy or phonorecord of the best edition of the collective work.





Unpublished Collections

A work may be registered in unpublished form as a "collection," with one application and one fee, under the following conditions:

- The elements of the collection are assembled in an orderly form;
- The combined elements bear a single title identifying the collection as a whole;
- The copyright claimant in all the elements and in the collection as a whole is the same; and
- All of the elements are by the same author, or, if they are by different authors, at least one of the authors has contributed copyrightable authorship to each element.

Unpublished collections are indexed in the *Catalog of Copyright Entries* only under the collection titles.

Special Deposit Requirements

The Copyright Act gives the Register of Copyrights authority to issue regulations making adjustments in the statutory deposit requirements. These regulations as now issued require or permit, for particular classes, the deposit of identifying material instead of copies or phonorecords, the deposit of only one copy or phonorecord where two would normally be required, and in some cases material other than complete copies of the best edition. For example, the regulations ordinarily require deposit of identifying material, such as photographs or drawings, when the work being registered has been reproduced in three-dimensional copies.

If you are unsure of the proper deposit required for your work, write to the Copyright Office for that information and describe the work you wish to register.

NOTE: LIBRARY OF CONGRESS CATALOG CARD NUMBERS.
A Library of Congress Catalog Card Number is different from a copyright registration number. The Cataloging in Publication (CIP) Division of the Library of Congress is responsible for assigning LC Catalog Card Numbers and is operationally separate from the Copyright Office. A book may be registered in or deposited with the Copyright Office but not necessarily cataloged and added to the Library's collections. For information about obtaining an LC Catalog Card Number, contact the CIP Division, Library of Congress, Washington, D.C. 20540.

CORRECTIONS AND AMPLIFICATIONS OF EXISTING REGISTRATIONS

To deal with cases in which information in the basic registration later turns out to be incorrect or incomplete, the law provides for "the filing of an application for supplementary registration, to correct an error in a copyright registration or to amplify the information given in a registration." The information in a supplementary registration augments but does not supersede that contained in the earlier registration. Note also that a supplementary registration is not a substitute for an original registration or for a renewal registration. Form CA is available from the Copyright Office for making a supplementary registration. For further information about supplementary registrations, write for Circular R8.

MANDATORY DEPOSIT FOR WORKS PUBLISHED IN THE UNITED STATES WITH NOTICE OF COPYRIGHT

Although a copyright registration is not required, the Copyright Act establishes a mandatory deposit requirement for works published with notice of copyright in the United States (see definition of "publication" on page 5). In general, the owner of copyright, or the owner of the right of first publication in the work, has a legal obligation to deposit in the Copyright Office, within 3 months of publication in the United States, 2 copies (or, in the case of sound recordings, 2 phonorecords) for the use of the Library of Congress. Failure to make the deposit can result in fines and other penalties, but does not affect copyright protection.

The Copyright Office has issued regulations *exempting* certain categories of works *entirely* from the mandatory deposit requirements, and reducing the obligation for certain other categories. For further information about mandatory deposit, please write to the Copyright Office for Circular R7d.

USE OF MANDATORY DEPOSIT TO SATISFY REGISTRATION REQUIREMENTS

With respect to works published in the United States the Copyright Act contains a special provision under which a single deposit can be made to satisfy both the deposit requirements for the Library and the registration requirements. The provision requires that, in order to have this dual effect, the copies or phonorecords must be "accompanied by the prescribed application and fee" for registration.

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WHO MAY FILE AN APPLICATION FORM

The following persons are legally entitled to submit an application form:

- The author. This is either the person who actually created the work, or, if the work was made for hire, the employer or other person for whom the work was prepared.

- The copyright claimant. The copyright claimant is defined in Copyright Office regulations as either the author of the work or a person or organization that has obtained ownership of all the rights under the copyright initially belonging to the author. This category includes a person or organization who has obtained by contract the right to claim legal title to the copyright in an application for copyright registration.

- The owner of exclusive right(s). Under the new law, any of the exclusive rights that go to make up a copyright and any subdivision of them can be transferred and owned separately, even though the transfer may be limited in time or place of effect. The term "copyright owner" with respect to any one of the exclusive rights contained in a copyright refers to the owner of that particular right. Any owner of an exclusive right may apply for registration of a claim in the work.

- The duly authorized agent of such author, other copyright claimant, or owner of exclusive right(s). Any person authorized to act on behalf of the author, other copyright claimant, or owner of exclusive right(s) may apply for registration.

There is no requirement that applications be prepared or filed by an attorney.

APPLICATION FORMS

For Original Registration

Form TX: for published and unpublished nondramatic literary works

Form SE: for serials, works issued or intended to be issued in successive parts bearing numerical or chronological designations and intended to be continued indefinitely (periodicals, newspapers, magazines, newsletters, annuals, journals, etc.)

Form PA: for published and unpublished works of the performing arts (musical and dramatic works, pantomimes and choreographic works, motion pictures and other audiovisual works)

Form VA: for published and unpublished works of the visual arts (pictorial, graphic, and sculptural works)

Form SR: for published and unpublished sound recordings

For Renewal Registration

Form RE: for claims to renewal copyright in works copyrighted under the law in effect through December 31, 1977 (1909 Copyright Act)

For Corrections and Amplifications

Form CA: for supplementary registration to correct or amplify information given in the Copyright Office record of an earlier registration

Other Forms for Special Purposes

Form GR/CP: an adjunct application to be used for registration of a group of contributions to periodicals in addition to an application Form TX, PA, or VA

Form IS: request for issuance of an import statement under the manufacturing provisions of the Copyright Act

Application forms are supplied by the Copyright Office free of charge.

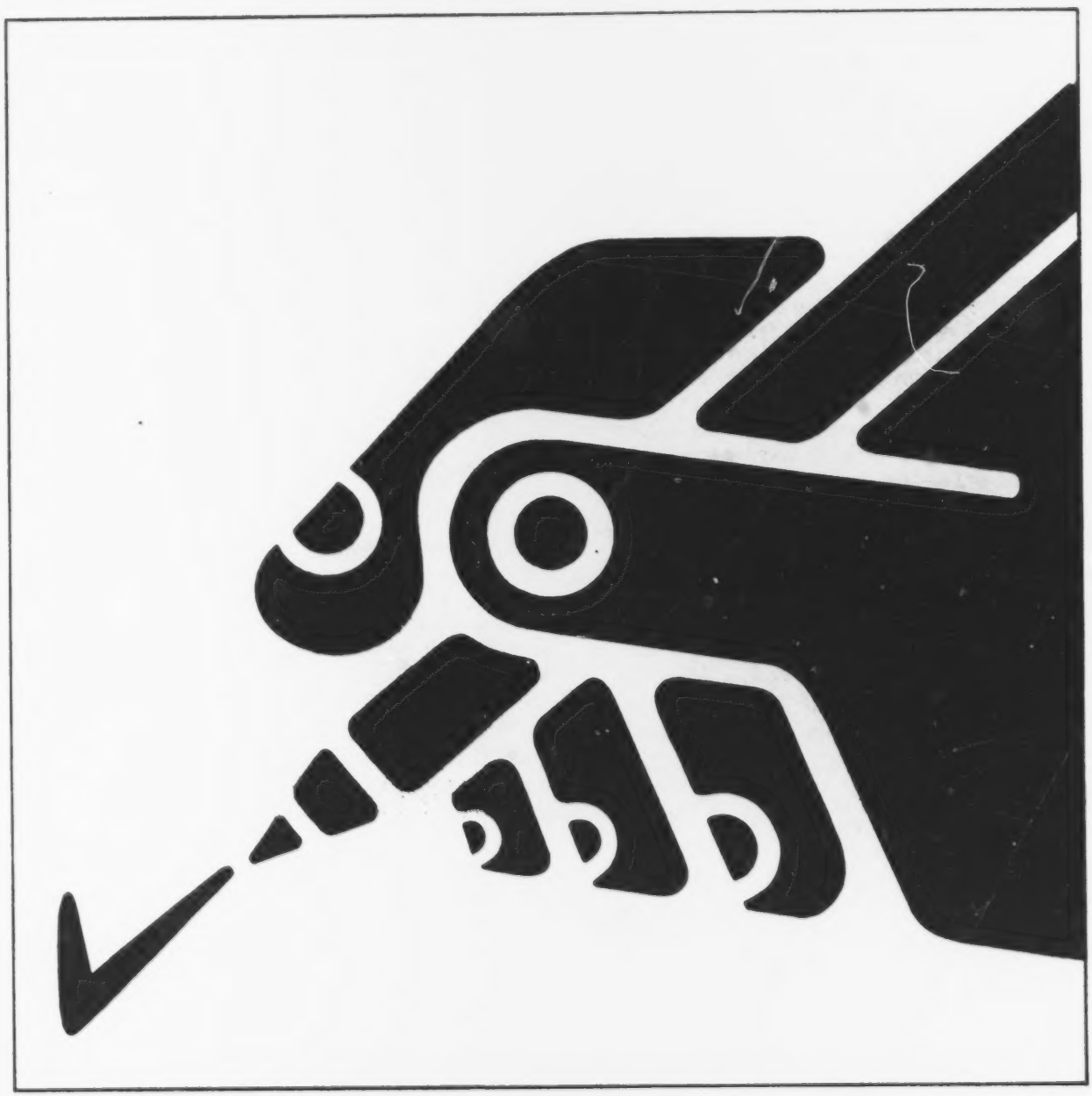
FORMS HOTLINE

NOTE: Requestors may order application forms at any hour by telephoning (202) 287-9100. Orders will be processed automatically and filled as quickly as possible.

Circular

R99

Highlights of the New Copyright Law



MAILING INSTRUCTIONS

All applications and materials related to copyright registration sent to the Copyright Office should be addressed to the Register of Copyrights, Copyright Office, Library of Congress, Washington, D.C. 20559.

The application, deposit (copies or phonorecords), and nonreturnable filing fee should be mailed in the same package.

WHAT HAPPENS IF THE THREE ELEMENTS ARE NOT RECEIVED TOGETHER

Applications and fees received without copies or phonorecords will not be processed and will ordinarily be returned. Unpublished deposits alone will ordinarily be returned, also. Published deposits received without applications and fees will be immediately transferred to the collections of the Library of Congress. This practice is in accordance with section 408 of the law which provides that the published deposit required for the collections of the Library of Congress may be used for registration only if the deposit is "accompanied by the prescribed application and fee . . ."

After the deposit is received and transferred to another department of the Library for its collections or other disposition, it is no longer available to the Copyright Office; the custody of that deposit has also been transferred to the other department. Then, if you wish to make copyright registration, you must deposit additional copies or phonorecords with your application and fee.

FEES

Do not send cash. Fees sent to the Copyright Office should be in the form of a money order, check, or bank draft payable to the Register of Copyrights; it should be securely attached to the application.

EFFECTIVE DATE OF REGISTRATION

Please note that **a copyright registration is effective on the date of receipt in the Copyright Office of all the required elements in acceptable form,** regardless of the length of time it takes thereafter to process the application and mail the certificate of registration. The length of time required by the Copyright Office to process an application varies from time to time, depending on the amount of material received and the personnel available to handle it. It must also be kept in mind that it may take a number of days for mailed material to reach the Copyright Office and for the certificate of registration to reach the recipient after being mailed by the Copyright Office.

If you are filing an application for copyright registration in the Copyright Office, you *will not* receive an acknowledgement that your application has been received (the Office receives more than 500,000 applications annually), but you can expect:

- A letter or telephone call from a copyright examiner if further information is needed;
- A certificate of registration to indicate the work has been registered, or if the application cannot be accepted, a letter explaining why it has been rejected.

You may not receive either of these until 90 days have passed.

If you want to know when the Copyright Office receives your material, you should send it via registered or certified mail and request a return receipt.

AVAILABLE INFORMATION

This circular attempts to answer some of the questions that are frequently asked about copyright. For a list of other material published by the Copyright Office, write for "Publications on Copyright." Any requests for Copyright Office publications or special questions relating to copyright problems not mentioned in this circular should be addressed to the Information and Publications Section, LM-455, Copyright Office, Library of Congress, Washington, D.C. 20559.

The Copyright Office is not permitted to give legal advice. If you need information or guidance on matters such as disputes over the ownership of a copyright, suits against possible infringers, the procedure for getting a work published, or the method of obtaining royalty payments, it may be necessary to consult an attorney.

Copyright Office • Library of Congress • Washington, D.C. 20559

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Highlights of the New Copyright Law

INTRODUCTION

On January 1, 1978, a completely new copyright statute (title 17 of the United States Code) came into effect in the United States, superseding the Copyright Act of 1909, as amended, and making important changes in our copyright system. Some of the highlights of the new statute are listed below. For detailed information about specific changes or new provisions, write to the Copyright Office.

HIGHLIGHTS

Single National System

Instead of the former dual system of protecting works under the common law before they were published and under the Federal statute after publication, the new law establishes a single system of statutory protection for all copyrightable works, whether published or unpublished.

Duration of Copyright

For works created (fixed in tangible form for the first time) after January 1, 1978, the term of protection starts at the moment of creation and lasts for the author's life, plus an additional 50 years after the author's death. In the case of "a joint work prepared by two or more authors who did not work for hire," the term lasts for 50 years after the last surviving author's death. For works made for hire, and for anonymous and pseudonymous works (unless the author's identity is revealed in Copyright Office records), the duration of copyright is 75 years from publication or 100 years from creation, whichever is shorter.

Works that had been created before the new law came into effect but had neither been published nor registered for copyright before January 1, 1978, have been automatically brought under the statute and are now given Federal copyright protection. The duration of copyright in these works is generally computed in the same way as for new works: the life-plus-50 or 75/100-year terms. However, all works in this category are guaranteed at least 25 years of statutory protection. The law specifies that in no case will copyright in a work of this sort expire before December 31, 2002, and if the work is published before that date the term may be extended by another 25 years, through the end of 2027.

For works that had already secured statutory copyright protection before January 1, 1978, the new law retains the old system for computing the duration of protection, but with some changes. The law provides for a first term of 28 years, measured from the date protection was originally secured by publication or registration, with the right to a renewal term of 47 years. Copyrights in their first term **must still be renewed** to receive the full new maximum term of 75 years, but copyrights in their second term between December 31, 1976, and December 31, 1977, were automatically extended up to the maximum of 75 years without the need for further renewal.

The new law provides that all terms of copyright will run through the end of the calendar year in which they would otherwise expire. This not only affects the duration of copyrights, but also the time limits for renewal registrations.

The new Act does not restore copyright protection for any work that has gone into the public domain.

For further information about duration, write for Circular R15a.

Termination of Transfers

Under the old law, after the first term of 28 years the renewal copyright reverted in certain situations to the author or other specified beneficiaries. The new law dropped the renewal feature except for works already in their first term of statutory protection when the new law took effect. Instead, for transfers of United States rights made by an author on or after January 1, 1978, the new Act generally permits the author or certain heirs to terminate the transfer during a 5-year period beginning at the end

of 35 years from the date of the grant, or if the grant covers the right of publication, 35 years from the date of publication or 40 years from the date of the grant, whichever is shorter. To terminate, a written notice must be served on the transferee within specified time limits.

For works under statutory copyright protection on December 31, 1977, a similar right of termination is provided with respect to transfers covering the newly added years extending the previous maximum term of the copyright from 56 to 75 years. Within certain time limits, an author or specified heirs of the author are generally entitled to file a notice terminating the author's transfers covering any part of the period (usually 19 years) that has now been added to the end of the second term of copyright in a work.

Works of the United States Government

The new law continues the prohibition against copyright in "publications of the United States Government" but clarifies its scope by defining works covered by the prohibition as those prepared by an officer or employee of the U.S. Government as part of that person's official duties.

Fair Use

The new law adds a provision to the statute specifically recognizing the principle of "fair use" as a limitation on the exclusive rights of copyright owners, and indicates factors to be considered in determining whether particular uses fall within this category.

Reproduction by Libraries and Archives

In addition to the provision for "fair use," the new law specifies circumstances under which the making or distribution of single copies of works by libraries and archives for noncommercial purposes do not constitute a copyright infringement.

For further information about reproduction of copyrighted works by librarians and educators, write for Circular R21.

Copyright Royalty Tribunal

The new law created a Copyright Royalty Tribunal whose purpose is to determine whether copyright royalty rates, in certain categories where such rates are established in the law, are reasonable and, if not, to adjust them; it will also in certain circumstances determine the distribution of those statutory royalty fees deposited with the Register of Copyrights.

Sound Recordings

The new law retains the provisions added to the old copyright law in 1972 which accord protection against the unauthorized duplication of sound recordings. The new law does not create a performance right for sound recordings as such.

Recording Rights in Music

The new law makes a number of changes in the system providing compulsory licensing for the recording of music. Among other things it raises the statutory royalty rate, which the Copyright Royalty Tribunal has the authority to adjust periodically.

There is no longer any requirement to file a Notice of Use form with the Copyright Office in order to use the mechanical licensing provisions.

Exempt Performances

The new law removes the general exemption of public performance of nondramatic literary and musical works where the performance is not "for profit." Instead, it provides several specific exemptions for certain types of nonprofit uses, including performances in classrooms and instructional broadcasting. The law also gives broadcasting organizations a limited privilege of making "ephemeral recordings" of their broadcasts.

Public Broadcasting

Under the new Act, noncommercial transmissions by public broadcasters of published musical and graphic works are subject to a compulsory license if copyright owners and public broadcasting entities do not reach voluntary agreement. License agreements between copyright owners

and public broadcasters are to be filed in the Copyright Office.

Jukebox Exemption

The new law removes the exemption for performances of copyrighted music by jukeboxes. It substitutes a system of compulsory licenses based upon the payment by jukebox operators of an annual royalty fee to the Register of Copyrights for later distribution by the Copyright Royalty Tribunal to the copyright owners.

Cable Television

The new law provides for the payment, under a system of compulsory licensing, of certain royalties for the secondary transmission of copyrighted works on cable television systems (CATV). The amounts are to be paid to the Register of Copyrights for later distribution to the copyright owners by the Copyright Royalty Tribunal.

Copyright Registration

Under the 1976 Act, a work of original authorship is protected by copyright from the time the work is created in a fixed form; registration with the Copyright Office is not a condition of copyright protection itself (except to preserve a copyright if a work has been published with a defective or missing copyright notice), but copyright registration is a prerequisite to an infringement suit.

There are also certain other definite advantages to registration, including establishing a public record of the copyright claim, securing the right to file an infringement suit, establishing prima facie evidence of the validity of the copyright, and making available a broader range of remedies in infringement suits.

Registration Procedures

To register a claim to copyright, send (1) a properly completed application form; (2) a fee of $10 (not cash) for each application; and (3) a deposit copy or phonorecord of the work being registered. The mailing address for copyright registrations is:

Register of Copyrights
Copyright Office
Library of Congress
Washington, D.C. 20559

For more information about which application form to use and deposit requirements, which vary in particular situations, write to:

Information and Publications Section, LM-455
Copyright Office, Library of Congress
Washington, D.C. 20559

Notice of Copyright

The old law required, as a mandatory condition of copyright protection, that the published copies of a work bear a copyright notice. The new enactment calls for a notice on published copies, but omission or errors will not immediately result in loss of the copyright, and can be corrected within certain time limits. Innocent infringers misled by the omission or error will be shielded from liability.

Mandatory Deposit

Although copyright registration is not required, the Copyright Act establishes a mandatory deposit requirement for works published with notice of copyright in the United States. In general, the owner of copyright, or the owner of the right of first publication in the work, has a legal obligation to deposit in the Copyright Office, within 3 months of publication in the United States, 2 copies (or, in the case of sound recordings, 2 phonorecords) for the use of the Library of Congress. Failure to make the deposit can give rise to fines and other penalties, but does not affect copyright protection.

For further information about certain exemptions from this requirement, and more information about mandatory deposit, write for Circular R 7d.

Manufacturing Clause

The 1909 law required that certain works be manufactured in the United States to have copyright protection here. The 1976 Act makes several

modifications that narrow the coverage of the manufacturing clause, permit the importation of 2,000 copies manufactured abroad instead of the previous limit of 1,500 copies, and equate manufacture in Canada with manufacture in the United States. Although it was contemplated that the manufacturing clause would expire on July 1, 1982, the 97th Congress extended the clause until July 1, 1986, overruling a Presidential veto to do so.

Computer Software Act of 1980

On December 12, 1980, President Carter signed the "Computer Software Act of 1980" into law, thereby amending sections 101 and 117 of the 1976 Copyright Act to contain a specific definition of computer programs and to clarify the extent of the protection for computer software.

Although the Copyright Office has been registering claims in computer programs since 1964, the numbers of claims registered in recent years has increased enormously. Claims to copyright in computer programs may presently be registered with the Copyright Office on a TX form — as a literary work. For more information about the registration of computer software, contact the Copyright Office.

BACKGROUND

The effort that led to the general revision of the copyright law began in 1955 with a program that produced, under the supervision of the Copyright Office, a series of 35 extensive studies of major copyright problems. This was followed by a report of the Register of Copyrights on general revision in 1961, by the preparation in the Copyright Office of a preliminary proposed draft bill, and by a series of meetings with a Panel of Consultants consisting of copyright experts, the majority of them from outside the Government. Following a supplementary report by the Register and a bill introduced in Congress primarily for consideration and comment, the first legislative hearings were held before a subcommittee of the House Judiciary Committee on the basis of a bill introduced in 1965. During the same year a companion bill was introduced in the Senate.

In 1967, after the subcommittee had held extensive hearings, the House of Representatives pased a revision bill whose major features were similar to the bill just enacted.

There followed another series of extensive hearings before a subcommittee of the Senate Judiciary Committee, but, owing chiefly to an extended impasse on the complex and controversial subject of cable television, the revision bill was prevented from reaching the Senate floor.

Indeed it was not until 1974 that the copyright revision bill was enacted by the Senate. However, that bill, although in its general terms the same as the measure approved by the House in 1967, was different in a number of particulars. In February 1976 the Senate again passed the bill in essentially the same form as the one it had previously passed. Thereafter, the House, following further hearings and consideration by the Judiciary subcommittee, passed the bill on September 22, 1976. There followed a meeting of a conference committee of the two Houses, which resolved the differences between the two bills and reported a single version that was enacted by each body and presented to the President. On October 19, 1976, President Gerald R. Ford signed the bill which became Public Law 94-553 (90 Stat. 2541).

FURTHER INFORMATION

The Copyright Office has promulgated new regulations and proposed others. It has devised a new classification system and issued new application forms corresponding to the new registration categories. You can obtain copies of the new statute, a supply of new application forms, and other information free of charge by sending a specific written request to: Information and Publications Section, LM-455, Copyright Office, Library of Congress, Washington, D.C. 20559.

Public Law 94-553
94th Congress

An Act

For the general revision of the Copyright Law, title 17 of the United States Code, and for other purposes.

Oct. 19, 1976
[S. 22]

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

Title 17, USC, Copyrights.

TITLE I—GENERAL REVISION OF COPYRIGHT LAW

SEC. 101. Title 17 of the United States Code, entitled "Copyrights", is hereby amended in its entirety to read as follows:

TITLE 17—COPYRIGHTS

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Chapter 1.—SUBJECT MATTER AND SCOPE OF COPYRIGHT

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§ 101. Definitions

17 USC 101.

As used in this title, the following terms and their variant forms mean the following:

An "anonymous work" is a work on the copies or phonorecords of which no natural person is identified as author.

"Audiovisual works" are works that consist of a series of related images which are intrinsically intended to be shown by the use of machines or devices such as projectors, viewers, or electronic equipment, together with accompanying sounds, if any, regardless

"Sound recordings" are works that result from the fixation of a series of musical, spoken, or other sounds, but not including the sounds accompanying a motion picture or other audiovisual work, regardless of the nature of the material objects, such as disks, tapes, or other phonorecords, in which they are embodied.

"State" includes the District of Columbia and the Commonwealth of Puerto Rico, and any territories to which this title is made applicable by an Act of Congress.

A "transfer of copyright ownership" is an assignment, mortgage, exclusive license, or any other conveyance, alienation, or hypothecation of a copyright or of any of the exclusive rights comprised in a copyright, whether or not it is limited in time or place of effect, but not including a nonexclusive license.

A "transmission program" is a body of material that, as an aggregate, has been produced for the sole purpose of transmission to the public in sequence and as a unit.

To "transmit" a performance or display is to communicate it by any device or process whereby images or sounds are received beyond the place from which they are sent.

The "United States", when used in a geographical sense, comprises the several States, the District of Columbia and the Commonwealth of Puerto Rico, and the organized territories under the jurisdiction of the United States Government.

A "useful article" is an article having an intrinsic utilitarian function that is not merely to portray the appearance of the article or to convey information. An article that is normally a part of a useful article is considered a "useful article".

The author's "widow" or "widower" is the author's surviving spouse under the law of the author's domicile at the time of his or her death, whether or not the spouse has later remarried.

A "work of the United States Government" is a work prepared by an officer or employee of the United States Government as part of that person's official duties.

A "work made for hire" is—

(1) a work prepared by an employee within the scope of his or her employment; or

(2) a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire. For the purpose of the foregoing sentence, a "supplementary work" is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an "instructional text" is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

17 USC 102.

§ 102. Subject matter of copyright: In general

(a) Copyright protection subsists, in accordance with this title, in original works of authorship fixed in any tangible medium of expres-

sion, now known or later developed, from which they can be perceived, reproduced, or otherwise communicated, either directly or with the aid of a machine or device. Works of authorship include the following categories: Works of authorship.

(1) literary works;
(2) musical works, including any accompanying words;
(3) dramatic works, including any accompanying music;
(4) pantomimes and choreographic works;
(5) pictorial, graphic, and sculptural works;
(6) motion pictures and other audiovisual works; and
(7) sound recordings.

(b) In no case does copyright protection for an original work of authorship extend to any idea, procedure, process, system, method of operation, concept, principle, or discovery, regardless of the form in which it is described, explained, illustrated, or embodied in such work.

§ 103. Subject matter of copyright: Compilations and derivative works 17 USC 103.

(a) The subject matter of copyright as specified by section 102 includes compilations and derivative works, but protection for a work employing preexisting material in which copyright subsists does not extend to any part of the work in which such material has been used unlawfully.

(b) The copyright in a compilation or derivative work extends only to the material contributed by the author of such work, as distinguished from the preexisting material employed in the work, and does not imply any exclusive right in the preexisting material. The copyright in such work is independent of, and does not affect or enlarge the scope, duration, ownership, or subsistence of, any copyright protection in the preexisting material.

§ 104. Subject matter of copyright: National origin 17 USC 104.

(a) UNPUBLISHED WORKS.—The works specified by sections 102 and 103, while unpublished, are subject to protection under this title without regard to the nationality or domicile of the author.

(b) PUBLISHED WORKS.—The works specified by sections 102 and 103, when published, are subject to protection under this title if—

(1) on the date of first publication, one or more of the authors is a national or domiciliary of the United States, or is a national, domiciliary, or sovereign authority of a foreign nation that is a party to a copyright treaty to which the United States is also a party, or is a stateless person, wherever that person may be domiciled; or

(2) the work is first published in the United States or in a foreign nation that, on the date of first publication, is a party to the Universal Copyright Convention; or

(3) the work is first published by the United Nations or any of its specialized agencies, or by the Organization of American States; or

(4) the work comes within the scope of a Presidential proclamation. Whenever the President finds that a particular foreign nation extends to works by authors who are nationals or domiciliaries of the United States or to works that are first published in the United States, copyright protection on substantially the same basis as that on which the foreign nation extends protection to works of its own nationals and domiciliaries and works first published in that nation, the President may by proclamation extend protection under this title to works of which one or more

of the authors is, on the date of first publication, a national, domiciliary, or sovereign authority of that nation, or which was first published in that nation. The President may revise, suspend, or revoke any such proclamation or impose any conditions or limitations on protection under a proclamation.

17 USC 105.

§ 105. Subject matter of copyright: United States Government works

Copyright protection under this title is not available for any work of the United States Government, but the United States Government is not precluded from receiving and holding copyrights transferred to it by assignment, bequest, or otherwise.

17 USC 106.

§ 106. Exclusive rights in copyrighted works

Subject to sections 107 through 118, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:

(1) to reproduce the copyrighted work in copies or phonorecords;

(2) to prepare derivative works based upon the copyrighted work;

(3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

(4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly; and

(5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly.

17 USC 107.

§ 107. Limitations on exclusive rights: Fair use

Notwithstanding the provisions of section 106, the fair use of a copyrighted work, including such use by reproduction in copies or phonorecords or by any other means specified by that section, for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright. In determining whether the use made of a work in any particular case is a fair use the factors to be considered shall include—

(1) the purpose and character of the use, including whether such use is of a commercial nature or is for nonprofit educational purposes;

(2) the nature of the copyrighted work;

(3) the amount and substantiality of the portion used in relation to the copyrighted work as a whole; and

(4) the effect of the use upon the potential market for or value of the copyrighted work.

17 USC 108.

§ 108. Limitations on exclusive rights: Reproduction by libraries and archives

(a) Notwithstanding the provisions of section 106, it is not an infringement of copyright for a library or archives, or any of its employees acting within the scope of their employment, to reproduce no more than one copy or phonorecord of a work, or to distribute such copy or phonorecord, under the conditions specified by this section, if—

(1) the reproduction or distribution is made without any purpose of direct or indirect commercial advantage;

(2) the collections of the library or archives are (i) open to the public, or (ii) available not only to researchers affiliated with the library or archives or with the institution of which it is a part, but also to other persons doing research in a specialized field; and

(3) the reproduction or distribution of the work includes a notice of copyright.

(b) The rights of reproduction and distribution under this section apply to a copy or phonorecord of an unpublished work duplicated in facsimile form solely for purposes of preservation and security or for deposit for research use in another library or archives of the type described by clause (2) of subsection (a), if the copy or phonorecord reproduced is currently in the collections of the library or archives.

(c) The right of reproduction under this section applies to a copy or phonorecord of a published work duplicated in facsimile form solely for the purpose of replacement of a copy or phonorecord that is damaged, deteriorating, lost, or stolen, if the library or archives has, after a reasonable effort, determined that an unused replacement cannot be obtained at a fair price.

(d) The rights of reproduction and distribution under this section apply to a copy, made from the collection of a library or archives where the user makes his or her request or from that of another library or archives, of no more than one article or other contribution to a copyrighted collection or periodical issue, or to a copy or phonorecord of a small part of any other copyrighted work, if—

(1) the copy or phonorecord becomes the property of the user, and the library or archives has had no notice that the copy or phonorecord would be used for any purpose other than private study, scholarship, or research; and

(2) the library or archives displays prominently, at the place where orders are accepted, and includes on its order form, a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.

(e) The rights of reproduction and distribution under this section apply to the entire work, or to a substantial part of it, made from the collection of a library or archives where the user makes his or her request or from that of another library or archives, if the library or archives has first determined, on the basis of a reasonable investigation, that a copy or phonorecord of the copyrighted work cannot be obtained at a pair price, if—

(1) the copy or phonorecord becomes the property of the user, and the library or archives has had no notice that the copy or phonorecord would be used for any purpose other than private study, scholarship, or research; and

(2) the library or archives displays prominently, at the place where orders are accepted, and includes on its order form, a warning of copyright in accordance with requirements that the Register of Copyrights shall prescribe by regulation.

(f) Nothing in this section—

(1) shall be construed to impose liability for copyright infringement upon a library or archives or its employees for the unsupervised use of reproducing equipment located on its premises: *Provided*, That such equipment displays a notice that the making of a copy may be subject to the copyright law;

(2) excuses a person who uses such reproducing equipment or who requests a copy or phonorecord under subsection (d) from liability for copyright infringement for any such act, or for any later use of such copy or phonorecord, if it exceeds fair use as provided by section 107;

compilation of pictorial, graphic, or sculptural works, or the unauthorized use of any portion of an audiovisual work.

"Public broadcasting entity."
47 USC 397.

(g) As used in this section, the term "public broadcasting entity" means a noncommercial educational broadcast station as defined in section 397 of title 47 and any nonprofit institution or organization engaged in the activities described in clause (2) of subsection (d).

Chapter 2.—COPYRIGHT OWNERSHIP AND TRANSFER

Sec.
201. Ownership of copyright.
202. Ownership of copyright as distinct from ownership of material object.
203. Termination of transfers and licenses granted by the author.
204. Execution of transfers of copyright ownership.
205. Recordation of transfers and other documents.

17 USC 201.

§ 201. Ownership of copyright

(a) INITIAL OWNERSHIP.—Copyright in a work protected under this title vests initially in the author or authors of the work. The authors of a joint work are coowners of copyright in the work.

(b) WORKS MADE FOR HIRE.—In the case of a work made for hire, the employer or other person for whom the work was prepared is considered the author for purposes of this title, and, unless the parties have expressly agreed otherwise in a written instrument signed by them, owns all of the rights comprised in the copyright.

(c) CONTRIBUTIONS TO COLLECTIVE WORKS.—Copyright in each separate contribution to a collective work is distinct from copyright in the collective work as a whole, and vests initially in the author of the contribution. In the absence of an express transfer of the copyright or of any rights under it, the owner of copyright in the collective work is presumed to have acquired only the privilege of reproducing and distributing the contribution as part of that particular collective work, any revision of that collective work, and any later collective work in the same series.

(d) TRANSFER OF OWNERSHIP.—

(1) The ownership of a copyright may be transferred in whole or in part by any means of conveyance or by operation of law, and may be bequeathed by will or pass as personal property by the applicable laws of intestate succession.

(2) Any of the exclusive rights comprised in a copyright, including any subdivision of any of the rights specified by section 106, may be transferred as provided by clause (1) and owned separately. The owner of any particular exclusive right is entitled, to the extent of that right, to all of the protection and remedies accorded to the copyright owner by this title.

(e) INVOLUNTARY TRANSFER.—When an individual author's ownership of a copyright, or of any of the exclusive rights under a copyright, has not previously been transferred voluntarily by that individual author, no action by any governmental body or other official or organization purporting to seize, expropriate, transfer, or exercise rights of ownership with respect to the copyright, or any of the exclusive rights under a copyright, shall be given effect under this title.

17 USC 202.

§ 202. Ownership of copyright as distinct from ownership of material object

Ownership of a copyright, or of any of the exclusive rights under a copyright, is distinct from ownership of any material object in which the work is embodied. Transfer of ownership of any material object, including the copy or phonorecord in which the work is first fixed, does not of itself convey any rights in the copyrighted work embodied in the object; nor, in the absence of an agreement, does transfer of

ownership of a copyright or of any exclusive rights under a copyright convey property rights in any material object.

§ 203. Termination of transfers and licenses granted by the author 17 USC 203.

(a) CONDITIONS FOR TERMINATION.—In the case of any work other than a work made for hire, the exclusive or nonexclusive grant of a transfer or license of copyright or of any right under a copyright, executed by the author on or after January 1, 1978, otherwise than by will, is subject to termination under the following conditions:

(1) In the case of a grant executed by one author, termination of the grant may be effected by that author or, if the author is dead, by the person or persons who, under clause (2) of this subsection, own and are entitled to exercise a total of more than one-half of that author's termination interest. In the case of a grant executed by two or more authors of a joint work, termination of the grant may be effected by a majority of the authors who executed it; if any of such authors is dead, the termination interest of any such author may be exercised as a unit by the person or persons who, under clause (2) of this subsection, own and are entitled to exercise a total of more than one-half of that author's interest.

(2) Where an author is dead, his or her termination interest is owned, and may be exercised, by his widow or her widower and his or her children or grandchildren as follows:

(A) the widow or widower owns the author's entire termination interest unless there are any surviving children or grandchildren of the author, in which case the widow or widower owns one-half of the author's interest;

(B) the author's surviving children, and the surviving children of any dead child of the author, own the author's entire termination interest unless there is a widow or widower, in which case the ownership of one-half of the author's interest is divided among them;

(C) the rights of the author's children and grandchildren are in all cases divided among them and exercised on a per stirpes basis according to the number of such author's children represented; the share of the children of a dead child in a termination interest can be exercised only by the action of a majority of them.

(3) Termination of the grant may be effected at any time during a period of five years beginning at the end of thirty-five years from the date of execution of the grant; or, if the grant covers the right of publication of the work, the period begins at the end of thirty-five years from the date of publication of the work under the grant or at the end of forty years from the date of execution of the grant, whichever term ends earlier.

(4) The termination shall be effected by serving an advance notice in writing, signed by the number and proportion of owners of termination interests required under clauses (1) and (2) of this subsection, or by their duly authorized agents, upon the grantee or the grantee's successor in title. Notice.

(A) The notice shall state the effective date of the termination, which shall fall within the five-year period specified by clause (3) of this subsection, and the notice shall be served not less than two or more than ten years before that date. A copy of the notice shall be recorded in the Copyright Office before the effective date of termination, as a condition to its taking effect.

Chapter 3.—DURATION OF COPYRIGHT

Sec.
301. Preemption with respect to other laws.
302. Duration of copyright: Works created on or after January 1, 1978.
303. Duration of copyright: Works created but not published or copyrighted before January 1, 1978.
304. Duration of copyright: Subsisting copyrights.
305. Duration of copyright: Terminal date.

17 USC 301.

§ 301. Preemption with respect to other laws

(a) On and after January 1, 1978, all legal or equitable rights that are equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106 in works of authorship that are fixed in a tangible medium of expression and come within the subject matter of copyright as specified by sections 102 and 103, whether created before or after that date and whether published or unpublished, are governed exclusively by this title. Thereafter, no person is entitled to any such right or equivalent right in any such work under the common law or statutes of any State.

(b) Nothing in this title annuls or limits any rights or remedies under the common law or statutes of any State with respect to—

(1) subject matter that does not come within the subject matter of copyright as specified by sections 102 and 103, including works of authorship not fixed in any tangible medium of expression; or

(2) any cause of action arising from undertakings commenced before January 1, 1978; or

(3) activities violating legal or equitable rights that are not equivalent to any of the exclusive rights within the general scope of copyright as specified by section 106.

(c) With respect to sound recordings fixed before February 15, 1972, any rights or remedies under the common law or statutes of any State shall not be annulled or limited by this title until February 15, 2047. The preemptive provisions of subsection (a) shall apply to any such rights and remedies pertaining to any cause of action arising from undertakings commenced on and after February 15, 2047. Notwithstanding the provisions of section 303, no sound recording fixed before February 15, 1972, shall be subject to copyright under this title before, on, or after February 15, 2047.

(d) Nothing in this title annuls or limits any rights or remedies under any other Federal statute.

17 USC 302.

§ 302. Duration of copyright: Works created on or after January 1, 1978

(a) IN GENERAL.—Copyright in a work created on or after January 1, 1978, subsists from its creation and, except as provided by the following subsections, endures for a term consisting of the life of the author and fifty years after the author's death.

(b) JOINT WORKS.—In the case of a joint work prepared by two or more authors who did not work for hire, the copyright endures for a term consisting of the life of the last surviving author and fifty years after such last surviving author's death.

(c) ANONYMOUS WORKS, PSEUDONYMOUS WORKS, AND WORKS MADE FOR HIRE.—In the case of an anonymous work, a pseudonymous work, or a work made for hire, the copyright endures for a term of seventy-five years from the year of its first publication, or a term of one hundred years from the year of its creation, whichever expires first. If, before the end of such term, the identity of one or more of the authors of an anonymous or pseudonymous work is revealed in the records of a registration made for that work under subsections (a) or (d) of section 408, or in the records provided by this subsection,

the copyright in the work endures for the term specified by subsection (a) or (b), based on the life of the author or authors whose identity has been revealed. Any person having an interest in the copyright in an anonymous or pseudonymous work may at any time record, in records to be maintained by the Copyright Office for that purpose, a statement identifying one or more authors of the work; the statement shall also identify the person filing it, the nature of that person's interest, the source of the information recorded, and the particular work affected, and shall comply in form and content with requirements that the Register of Copyrights shall prescribe by regulation.

(d) RECORDS RELATING TO DEATH OF AUTHORS.—Any person having an interest in a copyright may at any time record in the Copyright Office a statement of the date of death of the author of the copyrighted work, or a statement that the author is still living on a particular date. The statement shall identify the person filing it, the nature of that person's interest, and the source of the information recorded, and shall comply in form and content with requirements that the Register of Copyrights shall prescribe by regulation. The Register shall maintain current records of information relating to the death of authors of copyrighted works, based on such recorded statements and, to the extent the Register considers practicable, on data contained in any of the records of the Copyright Office or in other reference sources. Recordkeeping.

(e) PRESUMPTION AS TO AUTHOR'S DEATH.—After a period of seventy-five years from the year of first publication of a work, or a period of one hundred years from the year of its creation, whichever expires first, any person who obtains from the Copyright Office a certified report that the records provided by subsection (d) disclose nothing to indicate that the author of the work is living, or died less than fifty years before, is entitled to the benefit of a presumption that the author has been dead for at least fifty years. Reliance in good faith upon this presumption shall be a complete defense to any action for infringement under this title.

§ 303. Duration of copyright: Works created but not published or copyrighted before January 1, 1978 17 USC 303.

Copyright in a work created before January 1, 1978, but not theretofore in the public domain or copyrighted, subsists from January 1, 1978, and endures for the term provided by section 302. In no case, however, shall the term of copyright in such a work expire before December 31, 2002; and, if the work is published on or before December 31, 2002, the term of copyright shall not expire before December 31, 2027.

§ 304. Duration of copyright: Subsisting copyrights 17 USC 304.

(a) COPYRIGHTS IN THEIR FIRST TERM ON JANUARY 1, 1978.—Any copyright, the first term of which is subsisting on January 1, 1978, shall endure for twenty-eight years from the date it was originally secured: *Provided*, That in the case of any posthumous work or of any periodical, cyclopedic, or other composite work upon which the copyright was originally secured by the proprietor thereof, or of any work copyrighted by a corporate body (otherwise than as assignee or licensee of the individual author) or by an employer for whom such work is made for hire, the proprietor of such copyright shall be entitled to a renewal and extension of the copyright in such work for the further term of forty-seven years when application for such renewal and extension shall have been made to the Copyright Office and duly registered therein within one year prior to the expiration of the original term of copyright: *And provided further*, That in the case of any other

respect to any right covered by a terminated grant is valid only if it is signed by the same number and proportion of the owners, in whom the right has vested under this clause, as are required to terminate the grant under clause (2) of this subsection. Such further grant or agreement is effective with respect to all of the persons in whom the right it covers has vested under this subclause, including those who did not join in signing it. If any person dies after rights under a terminated grant have vested in him or her, that person's legal representatives, legatees, or heirs at law represent him or her for purposes of this subclause.

(D) A further grant, or agreement to make a further grant, of any right covered by a terminated grant is valid only if it is made after the effective date of the termination. As an exception, however, an agreement for such a further grant may be made between the author or any of the persons provided by the first sentence of clause (6) of this subsection, or between the persons provided by subclause (C) of this clause, and the original grantee or such grantee's successor in title, after the notice of termination has been served as provided by clause (4) of this subsection.

(E) Termination of a grant under this subsection affects only those rights covered by the grant that arise under this title, and in no way affects rights arising under any other Federal, State, or foreign laws.

(F) Unless and until termination is effected under this subsection, the grant, if it does not provide otherwise, continues in effect for the remainder of the extended renewal term.

17 USC 305.

§ 305. Duration of copyright: Terminal date

All terms of copyright provided by sections 302 through 304 run to the end of the calendar year in which they would otherwise expire.

Chapter 4.—COPYRIGHT NOTICE, DEPOSIT, AND REGISTRATION

Sec.

401. Notice of copyright: Visually perceptible copies.
402. Notice of copyright: Phonorecords of sound recordings.
403. Notice of copyright: Publications incorporating United States Government works.
404. Notice of copyright: Contributions to collective works.
405. Notice of copyright: Omission of notice.
406. Notice of copyright: Error in name or date.
407. Deposit of copies or phonorecords for Library of Congress.
408. Copyright registration in general.
409. Application for copyright registration.
410. Registration of claim and issuance of certificate.
411. Registration as prerequisite to infringement suit.
412. Registration as prerequisite to certain remedies for infringement.

17 USC 401.

§ 401. Notice of copyright: Visually perceptible copies

(a) GENERAL REQUIREMENT.—Whenever a work protected under this title is published in the United States or elsewhere by authority of the copyright owner, a notice of copyright as provided by this section shall be placed on all publicly distributed copies from which the work can be visually perceived, either directly or with the aid of a machine or device.

(b) FORM OF NOTICE.—The notice appearing on the copies shall consist of the following three elements:

(1) the symbol © (the letter C in a circle), or the word "Copyright", or the abbreviation "Copr."; and

(2) the year of first publication of the work; in the case of compilations or derivative works incorporating previously published material, the year date of first publication of the compilation or derivative work is sufficient. The year date may be omitted where a pictorial, graphic, or sculptural work, with accompanying text matter, if any, is reproduced in or on greeting cards, postcards, stationery, jewelry, dolls, toys, or any useful articles; and

(3) the name of the owner of copyright in the work, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner.

(c) POSITION OF NOTICE.—The notice shall be affixed to the copies in such manner and location as to give reasonable notice of the claim of copyright. The Register of Copyrights shall prescribe by regulation, as examples, specific methods of affixation and positions of the notice on various types of works that will satisfy this requirement, but these specifications shall not be considered exhaustive.

§ 402. Notice of copyright: Phonorecords of sound recordings 17 USC 402.

(a) GENERAL REQUIREMENT.—Whenever a sound recording protected under this title is published in the United States or elsewhere by authority of the copyright owner, a notice of copyright as provided by this section shall be placed on all publicly distributed phonorecords of the sound recording.

(b) FORM OF NOTICE.—The notice appearing on the phonorecords shall consist of the following three elements:

(1) the symbol ℗ (the letter P in a circle); and

(2) the year of first publication of the sound recording; and

(3) the name of the owner of copyright in the sound recording, or an abbreviation by which the name can be recognized, or a generally known alternative designation of the owner; if the producer of the sound recording is named on the phonorecord labels or containers, and if no other name appears in conjunction with the notice, the producer's name shall be considered a part of the notice.

(c) POSITION OF NOTICE.—The notice shall be placed on the surface of the phonorecord, or on the phonorecord label or container, in such manner and location as to give reasonable notice of the claim of copyright.

§ 403. Notice of copyright: Publications incorporating United States Government works 17 USC 403.

Whenever a work is published in copies or phonorecords consisting preponderantly of one or more works of the United States Government, the notice of copyright provided by sections 401 or 402 shall also include a statement identifying, either affirmatively or negatively, those portions of the copies or phonorecords embodying any work or works protected under this title.

§ 404. Notice of copyright: Contributions to collective works 17 USC 404.

(a) A separate contribution to a collective work may bear its own notice of copyright, as provided by sections 401 through 403. However, a single notice applicable to the collective work as a whole is sufficient to satisfy the requirements of sections 401 through 403 with respect to the separate contributions it contains (not including advertisements inserted on behalf of persons other than the owner of copyright in the collective work), regardless of the ownership of copyright in the contributions and whether or not they have been previously published.

(b) Where the person named in a single notice applicable to a collective work as a whole is not the owner of copyright in a separate

contribution that does not bear its own notice, the case is governed by the provisions of section 406(a).

17 USC 405.

§ 405. Notice of copyright: Omission of notice

(a) EFFECT OF OMISSION ON COPYRIGHT.—The omission of the copyright notice prescribed by sections 401 through 403 from copies or phonorecords publicly distributed by authority of the copyright owner does not invalidate the copyright in a work if—

(1) the notice has been omitted from no more than a relatively small number of copies or phonorecords distributed to the public; or

(2) registration for the work has been made before or is made within five years after the publication without notice, and a reasonable effort is made to add notice to all copies or phonorecords that are distributed to the public in the United States after the omission has been discovered; or

(3) the notice has been omitted in violation of an express requirement in writing that, as a condition of the copyright owner's authorization of the public distribution of copies or phonorecords, they bear the prescribed notice.

(b) EFFECT OF OMISSION ON INNOCENT INFRINGERS.—Any person who innocently infringes a copyright, in reliance upon an authorized copy or phonorecord from which the copyright notice has been omitted, incurs no liability for actual or statutory damages under section 504 for any infringing acts committed before receiving actual notice that registration for the work has been made under section 408, if such person proves that he or she was misled by the omission of notice. In a suit for infringement in such a case the court may allow or disallow recovery of any of the infringer's profits attributable to the infringement, and may enjoin the continuation of the infringing undertaking or may require, as a condition or permitting the continuation of the infringing undertaking, that the infringer pay the copyright owner a reasonable license fee in an amount and on terms fixed by the court.

(c) REMOVAL OF NOTICE.—Protection under this title is not affected by the removal, destruction, or obliteration of the notice, without the authorization of the copyright owner, from any publicly distributed copies or phonorecords.

17 USC 406.

§ 406. Notice of copyright: Error in name or date

(a) ERROR IN NAME.—Where the person named in the copyright notice on copies or phonorecords publicly distributed by authority of the copyright owner is not the owner of copyright, the validity and ownership of the copyright are not affected. In such a case, however, any person who innocently begins an undertaking that infringes the copyright has a complete defense to any action for such infringement if such person proves that he or she was misled by the notice and began the undertaking in good faith under a purported transfer or license from the person named therein, unless before the undertaking was begun—

(1) registration for the work had been made in the name of the owner of copyright; or

(2) a document executed by the person named in the notice and showing the ownership of the copyright had been recorded.

The person named in the notice is liable to account to the copyright owner for all receipts from transfers or licenses purportedly made under the copyright by the person named in the notice.

(b) ERROR IN DATE.—When the year date in the notice on copies or phonorecords distributed by authority of the copyright owner is earlier than the year in which publication first occurred, any period

computed from the year of first publication under section 302 is to be computed from the year in the notice. Where the year date is more than one year later than the year in which publication first occurred, the work is considered to have been published without any notice and is governed by the provisions of section 405.

(c) OMISSION OF NAME OR DATE.—Where copies or phonorecords publicly distributed by authority of the copyright owner contain no name or no date that could reasonably be considered a part of the notice, the work is considered to have been published without any notice and is governed by the provisions of section 405.

§ 407. Deposit of copies or phonorecords for Library of Congress 17 USC 407.

(a) Except as provided by subsection (c), and subject to the provisions of subsection (e), the owner of copyright or of the exclusive right of publication in a work published with notice of copyright in the United States shall deposit, within three months after the date of such publication—

(1) two complete copies of the best edition; or

(2) if the work is a sound recording, two complete phonorecords of the best edition, together with any printed or other visually perceptible material published with such phonorecords.

Neither the deposit requirements of this subsection nor the acquisition provisions of subsection (e) are conditions of copyright protection.

(b) The required copies or phonorecords shall be deposited in the Copyright Office for the use or disposition of the Library of Congress. The Register of Copyrights shall, when requested by the depositor and upon payment of the fee prescribed by section 708, issue a receipt for the deposit.

(c) The Register of Copyrights may by regulation exempt any categories of material from the deposit requirements of this section, or require deposit of only one copy or phonorecord with respect to any categories. Such regulations shall provide either for complete exemption from the deposit requirements of this section, or for alternative forms of deposit aimed at providing a satisfactory archival record of a work without imposing practical or financial hardships on the depositor, where the individual author is the owner of copyright in a pictorial, graphic, or sculptural work and (i) less than five copies of the work have been published, or (ii) the work has been published in a limited edition consisting of numbered copies, the monetary value of which would make the mandatory deposit of two copies of the best edition of the work burdensome, unfair, or unreasonable. Exemption.

(d) At any time after publication of a work as provided by subsection (a), the Register of Copyrights may make written demand for the required deposit on any of the persons obligated to make the deposit under subsection (a). Unless deposit is made within three months after the demand is received, the person or persons on whom the demand was made are liable— Penalties.

(1) to a fine of not more than $250 for each work; and

(2) to pay into a specially designated fund in the Library of Congress the total retail price of the copies or phonorecords demanded, or, if no retail price has been fixed, the reasonable cost of the Library of Congress of acquiring them; and

(3) to pay a fine of $2,500, in addition to any fine or liability imposed under clauses (1) and (2), if such person willfully or repeatedly fails or refuses to comply with such a demand.

(e) With respect to transmission programs that have been fixed and transmitted to the public in the United States but have not been published, the Register of Copyrights shall, after consulting with the Librarian of Congress and other interested organizations and officials, Regulations.

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GENERAL GUIDE TO THE COPYRIGHT ACT OF 1976

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GENERAL GUIDE TO THE COPYRIGHT ACT OF 1976

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INTRODUCTION

The Copyright Act of 1976, Public Law 94-553 (90 Stat. 2541), is a general revision of the copyright law, Title 17, United States Code; it becomes fully effective on January 1, 1978. The new law supersedes the Copyright Act of 1909, as amended, and is the first extensive revision of the 1909 law.

Early in 1977 the Register of Copyrights established in the Copyright Office a Revision Coordinating Committee, chaired by the Register, to oversee the development and coordination of plans for implementation of the new law. The Committee recognized that an important part of this initial preparation was staff training and it asked Marybeth Peters, Senior Attorney-Adviser, to plan, organize, and conduct all internal training on the new law as well as to coordinate all training activities outside of the Copyright Office. As a result of her successful execution of the first part of this assignment, 260 staff members, in 15 sessions of one and one-half hours each, completed an intensive study of the new law; 125 other staff members participated a "mini-course". Ms. Peters, who has a teaching as well as a legal background, prepared all instructional materials and designed the format for both the short- and long-term courses.

Because Ms. Peters' instruction was basic and her "lesson plans" comprehensive, the Copyright Office received repeated requests for wider dissemination of her instructional materials. The Revision Coordinating Committee is responding to this demand by publishing Ms. Peters' guide. This general guide to the Copyright Act of 1976 is not an official summary of the law. It does not attempt to deal with all of the issues raised by the revision legislation nor to provide answers to legal questions. It is, however, an extensive training tool, the text of which follows the language used by Ms. Peters, with only a change in tense to avoid an appearance of obsolescence on January 1, 1978.

In developing the lectures and lesson plans, Ms. Peters relied heavily on the language of the law itself, the legislative reports, and the various statements of the Register of Copyrights to the Congress, i.e., the 1961 Report of the Register, 1965 Supplemental Report, and the 1975 Second Supplemental Report. Copies of these documents may be obtained by writing to the Copyright Office, Library of Congress, Washington, D.C. 20559. The fee for the 1961 Report of the Register is $.45 while the fee for the 1965 Supplementary Report is $1.00; there is no charge for the rest of the material.

THE VIEWS EXPRESSED IN THIS DOCUMENT ARE THOSE OF MS. PETERS AND DO NOT NECESSARILY REFLECT THE OFFICIAL VIEWS OF EITHER THE COPYRIGHT OFFICE OR THE LIBRARY OF CONGRESS.

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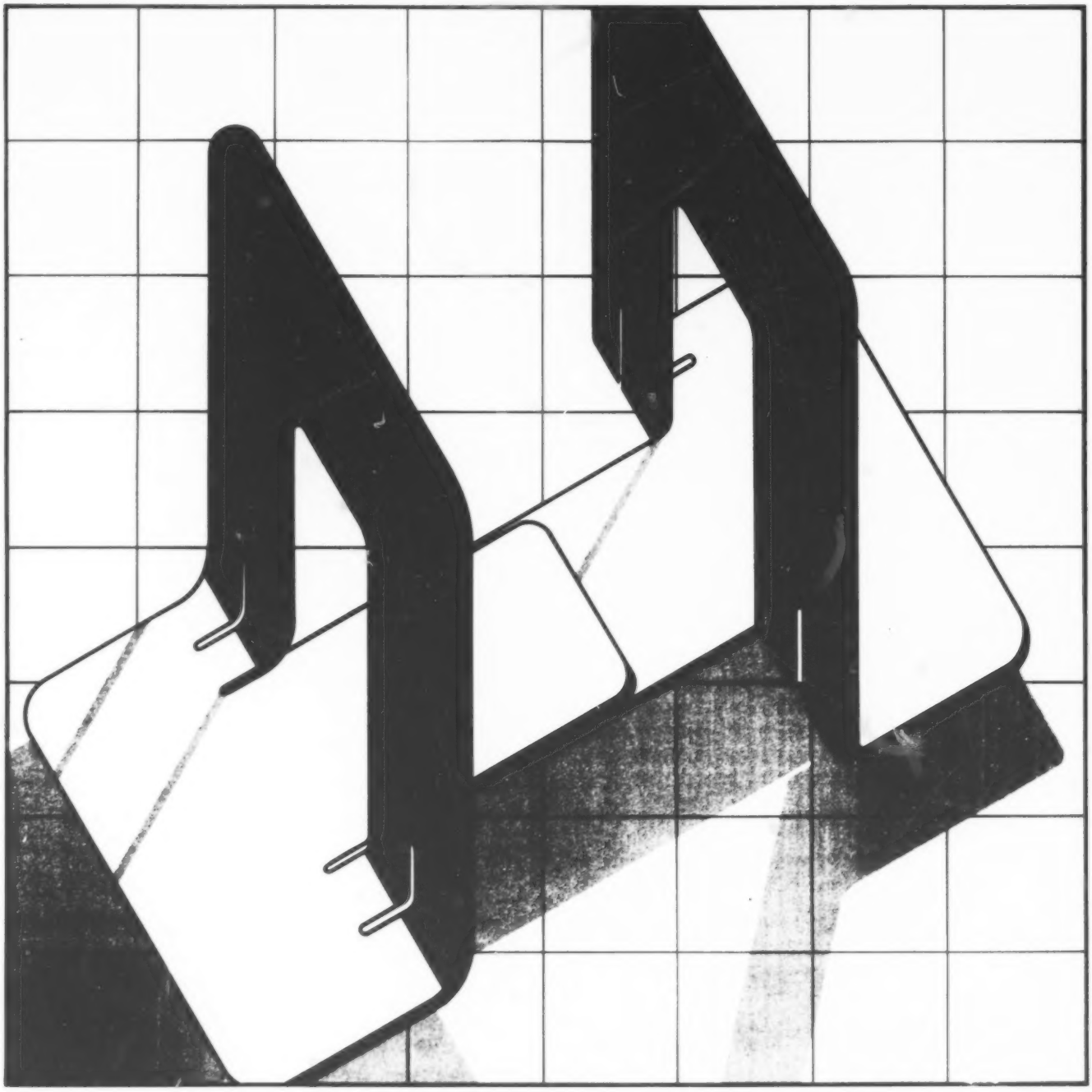
Publications on Copyright



NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

UNIVERSITY COPYRIGHT POLICIES

Workshop Materials - NCURA Intellectual Property Series - 1984

Title	Unit
Patents and Patent Rights	1
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Patent Clauses in Industrial Research Agreements	4
Patent License Agreements	5
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Introduction to

UNIVERSITY COPYRIGHT POLICIES

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

UNIVERSITY COPYRIGHT POLICIES

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GUIDELINES FOR DEVELOPING COPYRIGHT POLICIES

"Copyrights at Colleges and Universities," a chapter from the NACUBO Administrative Services, which is reproduced hereafter, was prepared by the Subcommittee on Patents, Copyrights, and Rights in Data of the NACUBO Council on Governmental Relations and Revised in 1980 to reflect the Copyright Revision Act of 1976. Its purpose is to assist colleges and universities in developing policies and procedures on copyrights.

The Guide suggests that in developing its copyright policies, an institution consider:

1. Definition of copyrightable materials.

2. Statement of policy concerning disposition of rights to copyrightable materials within the framework of the following suggested categories:

   a. Individual Effort (including institution-assisted)

   b. Institution-Supported Efforts

   c. Sponsor-Supported Efforts

3. Determination of equities, i.e., income resulting from royalties or assignment of copyrighted materials in terms of the categories in 2. above.

4. Copyright Administration.

In order to illustrate the manner in which these elements have been reflected in university policies, we have reproduced those of Stanford University and MIT in this part They have been selected solely because they illustrate differences in approach which are useful for purposes of comparison.

The Stanford University policy is a particularly broad and comprehensive one in that it not only deals with both research and instructional activities, but also addresses the principal features of the Copyright Act and copyright terms, contains guidelines for the application of the law and of Stanford policy to specific situations and types of materials, and provides a fairly complete statement of administrative considerations. It is, in effect, not only a statement of policy and procedure but also an educational document.

The MIT statement, on the other hand, is more narrowly drawn. It focuses primarily on disposition of rights in terms of the source of support and spells out its royalty sharing policy. (Discussion of the copyright law as such, its relation to instructional activities, and its implementation is contained in separate MIT memoranda and regulations distributed shortly after the copyright revisions of 1976.

Copyrights at Colleges and Universities

The expanding use of new and developing media in the teaching-learning processes has involved colleges and universities in a broad, complex spectrum of copyright issues. However, many institutions do not have adequate statements of copyright policies and procedures. The academic community traditionally has been most protective of the rights of authors' literary, dramatic, musical, artistic, and other intellectual works. When these works are original and presented by the author in a tangible medium of expression, they are protected by copyrights.

In addition to these traditional works, colleges and universities are increasingly concerned with the use of new media that generate or draw on a wide variety of materials that may be protected by copyright. These include films, television programs, cassettes, programmed learning materials, computer-assisted instruction, and computer programs. The generation of such materials is often a joint enterprise involving the ideas and talents of individual faculty members, the use of institutional facilities and equipment, and in many instances financial support from the institution or an outside sponsor. As both a generator and a user of these copyrightable materials, a college or university may face problems focusing on issues such as academic freedom, faculty rights, faculty accountability, release time, teaching credit, sponsor requirements, and the determination of rights to copyrightable materials. The income from royalties for some copyrightable materials can be significant.

The sponsor supporting a program that generates copyrightable material may stipulate specific conditions with respect to copyrights and royalty income. The U.S. Office of Education, in outlining its copyright policies in *Copyright Program Information*, 1971, made the following statement: "Universities particularly should establish written policies setting forth the respective rights of the university and its staff members in anticipated copyright royalties."

New curriculums and course materials are being developed continually for use with new media for communications and learning. Colleges and universities will be confronted with increasingly complex problems relating to copyrights and royalties on these materials. To protect the rights of the individual and the institution, it is important that colleges and universities develop well-conceived policies and procedures to govern the determination of rights to copyrightable materials.

Copyright Considerations

Scope of the Copyright

Statutory copyright is based on laws enacted by Congress. The U.S. Constitution gives Congress the power to enact laws relating to copyrights. Article 1, Section 8, states, "Congress shall have power...to promote the progress of science and the useful arts, by securing for limited times to authors and inventors the exclusive right to their respective writings and discoveries." Under this power, Congress has enacted various laws relating to copyrights, the most recent being the Copyright Revision Act of 1976, P.L. 94-553, effective January 1, 1978.

Under current copyright laws, a work must be original and fixed in a tangible medium of expression to be copyrightable; it is not necessary that the work be novel, as is the case with an invention. The copyright is applied to the form of expression rather than to its subject matter. A description of

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a machine could be copyrighted as a writing, but this would only prevent others from copying the description; it would not prevent others from writing their own descriptions or from making and using the machine.

Copyright Transfer

A copyright may be assigned, transferred, limited, or licensed by a written agreement signed by the author or the owner of the copyright. Unless specified in the agreement, transfer of a manuscript or a material object does not transfer the underlying rights to the manuscript. Similarly, transfer of ownership of a copyrighted work does not convey any rights in the material object.

Copyright Registration

Copyright protection can be claimed by the author or those authorized by him or her to assert this right. Works produced by an individual employed specifically for their production are normally copyrightable by the employer as a "work made for hire" and not by the author-employee. A copyright is registered by submitting an application for registration to the Copyright Office in the Library of Congress. Registration is a prerequisite to bringing an action for copyright infringement and may be done at any time during the term of copyright, but registration is not a condition of copyright protection. Copyright registration is obtained by delivering to the Copyright Office (1) the deposit copy or copies of the work, as required by the type of copyright protection sought, (2) an application in the form prescribed, and (3) a small fee. The Copyright Office receives the application and on finding that the material is copyrightable registers the claim and issues to the applicant a certificate of registration. Copies that are deposited without an application and registration fee will satisfy only the deposit requirements for the Library of Congress. Forms for registering copyrightable material of several media may be obtained from: Register of Copyrights, U.S. Copyright Office, Washington, D.C. 20559.

The revised copyright law (Public Law 94-553, October 19, 1976) provides protection to both published and unpublished works of authors without regard to national origin, thereby preempting common law state copyright.

Rights of Copyright Owner

The right of copyright arises when the author fixes his or her original work in any tangible medium of expression. While notice is still required for published works, it is no longer a prerequisite to obtaining protection. The owner of a copyright has the right of reproduction, derivation, distribution, performance, and public display.

The 1976 act provides broad guidelines for determining whether or not the rights of a copyright owner are subject to fair use, which permits limited use and reproduction for certain purposes. The guidelines of the Congressional Conference Committee should be consulted for specific examples of minimum fair-use copying.

The owner of a copyrighted sound recording has the exclusive right to reproduce it, to prepare derivative works, and to distribute it. This exclusivity does not extend to the right to perform the work publicly; pending legislation may provide this right. The new act incorporates the 1972 law on sound recordings including the copyright symbol Ⓟ.

There is no renewal feature wherein the copyright reverts to either the author or specified beneficiaries, except for those works already in their first term prior to January 1, 1978. After that date, the author or heirs may terminate a transfer made other than by will after 35 years from the date of the grant by serving written notice within a five-year period thereafter. If the grant covers the right of publication, termination may be effected 35 years from the date of publication or 40 years from the date of the grant, whichever is shorter. Such termination may be effected notwithstanding any agreement to the contrary; the copyright is divisible and each separate right has the right of termination. If not so terminated, the grant of copyright continues in effect for the term of the copyright.

Works made for hire and derivative works have no termination rights. Derivative works may continue to be used but no new derivative work may be prepared after termination.

Sole or Joint Copyright Ownership. Copyright ownership may be sole or joint; the intention of the authors determines this. Unless the intention is to create a unitary whole into which two or more

authors merge their contributions, the works of more than one author form a collective work. If there is no express written agreement, the owner of a copyright in a collective work has rights limited to the material contributed by the author of such work and the privilege of reproducing and distributing the contribution of other authors as part of the particular collective work or revision of that work. In the case of a "work for hire," which is defined as a work prepared by an employee within the scope of his or her employment or a commissioned work, the employer is the original author or owner unless the parties have agreed otherwise in a written statement.

Duration of Copyright

The duration of copyright is as follows: Works created on or after January 1, 1978, exist from *creation* and have a duration of life of the author plus 50 years. If there are joint authors, then duration is for life of the last surviving author plus 50 years. In the case of anonymous works or works made for hire, the term is 75 years from the year of first publication, or 100 years from creation, whichever is shorter.

In the case of works already under statutory protection, the term is 28 years plus 47 years, for a total of 75 years. Works in their first copyright term must be renewed in the 28th year. However, if the copyright was renewed between December 31, 1976 and December 31, 1977, the term is automatically extended for a total term of 75 years.

Works created prior to January 1, 1978, but not previously published or copyrighted have been accorded protection under the Copyright Act unless they are already in the public domain. A minimum duration of copyright is 25 years even though the same criteria (the life of the author plus 50 years, etc.) apply.

Although a published copyrighted work still requires notice, the placement of the notice has been liberalized so that the manner and location will be considered appropriate if they are within reasonable view. In addition, omission of the copyright notice or error in or omission of name or date may be corrected within certain time limits.

Infringement of Copyright

Only the legal or beneficial owner of the copyright has the right to institute an action for infringement. (Recordation of transfer is a prerequisite to bringing an infringement suit.) Remedies available include injunctions against further use; impoundment or destruction of material, damages and profits; and imposition of statutory damages in lieu of actual damages and profits. In the case of a civil suit for recovery of damages for willful infringement, damages of up to $50,000 may be awarded. Damage for infringement may be reduced to $100 in cases where an employee of a nonprofit educational institution or library is involved and where there is no reason to believe there would be copyright infringement. Where the offense of criminal infringement or private gain is proven, fines up to $50,000 and imprisonment for not more than two years for subsequent offenses may be imposed by the court. Fraudulent copies together with all usable plates, etc. are seized by and forfeited to the United States.

Compulsory Licensing

Chapter 8 of the new act creates the independent Copyright Royalty Tribunal, which is responsible for determining a fair and reasonable royalty where compulsory licensing is required. Such areas are noncommercial transmissions of published musical and graphic works by public broadcasters, performances of copyrighted music by jukeboxes, and transmissions of cable television.

MATERIALS SUBJECT TO COPYRIGHT

The following types of material, published or unpublished, may be subject to copyright:

1. Any written works, including books, journal articles, text, glossaries, bibliographies, study guides, laboratory manuals, syllabuses, tests, proposals.
2. Lectures, musical or dramatic compositions, and unpublished scripts.
3. Films, filmstrips, charts, transparencies, and other visual aids.
4. Video and audio tapes and cassettes.

5. Live video or audio broadcasts.
6. Programmed instruction materials.
7. Computer programs.
8. Pantomimes and choreographic works.
9. Pictorial, graphic, and sculptural works.
10. Sound recordings.
11. Other materials.

Although copyright law does not specifically mention computer programs, the U.S. Copyright Office has recognized since 1964 that computer programs are copyrightable, and numerous programs have been copyrighted. The National Commission on New Technological Use of Copyrighted Works recommended in 1978 that such recognition be continued.

Copyright Policy and Procedures

Colleges and universities recognize and encourage the publication of scholarly works as an inherent part of the educational mission. They also acknowledge the privilege of college or university personnel (faculty, staff, and students) to prepare, through individual initiative, articles, pamphlets, and books that are copyrighted and that may generate royalty income for the author. The variety and number of copyrightable materials that may be created in a college or university community have increased significantly in recent years as have the author-institution-sponsor relationships under which such materials are produced. Many institutions have well-defined patent policies and procedures, but few have adequate formal policies governing copyrights.

In setting copyright policy and procedures, an institution should consider the following:

1. Statement of institutional copyright policy.
2. Definition of copyrightable materials.
3. Determination of rights.
4. Determination of equities.
5. Copyright administration.

Most colleges and universities will find that copyrightable materials pose different policy and procedure problems than inventions do, so that separate policies and procedures should normally be adopted for copyrights and for patents. Policies and procedures developed for copyrightable materials should be consistent with or complementary to established institutional practices concerning inventions. Care should be taken to coordinate the copyright and publication requirements and patent requirements that may have been previously issued by the sponsoring agencies.

Statement of Institutional Copyright Policy

An institution seeking to clarify its position on the rights to and disposition of copyrightable material should develop a statement of copyright policy. This statement should be broad and it should be brief. Administrative procedures should be separate from the policy statement. The following topics may be included in the statement:

1. Recognition of the rights of college or university personnel (faculty, staff, and students), on their own individual initiative, to write or otherwise generate copyrightable materials to which they have the sole rights of ownership and disposition.
2. Disposition of rights to those materials generated as a result of assigned institutional duties or with support from a third-party sponsor.
3. Definition of royalty-sharing.
4. Description of the administrative body responsible for interpretation and administration of the copyright policy.

Definition of Copyrightable Materials

To guide faculty, staff, and students, an institution should define the types of copyrightable material covered by the copyright policy and interpret the provisions that apply to certain kinds of copyrightable materials. A list of types of materials is presented on page 3.

Determination of Rights

To determine the disposition of rights to copyrightable materials developed by college or university personnel, materials may be assessed within the framework of the following four categories:

Individual Effort. Rights to copyrightable material generated as a result of individual initiative, not as a specific college or university assignment and with only incidental use of the institution's facilities or resources, reside with the author.

Institution-Assisted Individual Effort. Where the college or university provides partial support of an individual effort resulting in copyrightable material by contributing significant faculty time, facilities, or institutional resources, it is reasonable to consider joint rights to ownership and disposition of these materials and a sharing of royalty income. A written agreement of joint ownership should be required. Some colleges or universities may find it desirable to merge this category with that of "Individual Effort," described above.

Institution-Supported Efforts. Ownership of copyrightable material specifically developed as a result of a written assigned college or university duty may reside with the institution, although sharing royalty income with the author may be appropriate in certain instances.

Sponsor-Supported Efforts. The grant or contract under which copyrightable materials are generated may specify provisions for the disposition of rights in these materials. These provisions should be determined at the time the agreement is negotiated. Persons who produce copyrightable materials under sponsor-supported projects should clearly understand their rights and obligations and, if so indicated, their agreement should be obtained before the institution enters into the contract or grant. Similarly, these persons should be aware of the appropriate terms and conditions before the work starts. Generally, the agreement between the sponsor and the institution will vest title to copyrightable materials in the college or university, with the sponsor retaining a royalty-free license for the sponsor's use. In other circumstances, the agreement may specify that the materials be placed in the public domain. (Such a requirement is normally undesirable from the standpoint of both the institution and the author.) Or the agreement may assign all rights to the institution, or may allow the sponsor to retain all rights. Even in exceptional situations, where the sponsor retains all rights, sharing of royalty income between the sponsor and the institution may be appropriate, particularly when the project involves institutional cost sharing. Thus, the nature and extent of the institution's ownership interest in copyrighted materials that are generated through sponsored programs are subject to policies and regulations of the sponsor.

The author, institution, and sponsor are often requested to relinquish rights to copyrighted articles submitted to scholarly and professional journals, many of which are copyrighted. Advance arrangements should be made with the publisher if the author, institution, or sponsor is to retain title or other rights to copyright of the material.

It is desirable to define in advance the disposition of rights to copyrightable materials generated through institution- or sponsor-supported efforts. The disposition of rights to materials developed through individual efforts partially assisted by an institution may prove more difficult to determine, particularly in advance.

Determination of Equities

The nature and extent of participation in income resulting from royalties or assignment of copyrighted materials can be determined by following the four categories of ownership described earlier.

Individual Effort and Institution-Assisted Individual Effort. Income derived from materials resulting from the individual initiative of college or university personnel should accrue to the author alone. However, when these individual efforts are significantly assisted by the use of institutional facilities or resources, the institution and the author may stipulate some degree of income sharing.

Institution-Supported Efforts. Where copyrighted materials are generated by a specific, assigned institutional duty, institutional policy may specify the college or university as sole recipient of the derived income. Many institutions have a royalty-sharing policy on patents, so an institution may similarly adopt a policy that provides for the crediting of part or all of the royalty from copyrightable materials to authors and academic departments. In some instances the institution may elect to grant or return copyrights to the author, even though the institution commissioned the work that generated the copyrightable materials.

Sponsor-Supported Efforts. If the development of the copyrighted materials is supported by a

sponsor, the college or university and the author must adhere to the conditions of the grant or contract. Income derived from copyrighted materials is handled in accordance with institutional policies unless special contractual or grant requirements prevail. In cases where the sponsor requires the return of part of the income derived from sales of sponsor-supported materials that are copyrighted, institutional cost sharing should be considered together with other factors in determining the distribution of such royalty income. If the institution receives all or part of the income derived from the sale of such sponsor-supported materials, this income normally would be handled in accordance with established institutional policies unless special sponsor requirements prevail.

In determining institutional policy on the disposition of royalty income, it may be desirable to consider identifying a portion of the derived income as a reserve to defray costs of future revisions or to implement the adoption of the copyrighted materials.

It is imperative that the disposition of copyrights and the royalty income aspects of institution- or sponsor-supported projects leading to copyrightable materials be examined thoroughly at the outset of the project and that a clear and mutually satisfactory written understanding be reached among the author, college or university, and sponsor.

Copyright Administration

It is beneficial for a college or university to develop well-defined and codified procedures for the governance of copyrightable materials developed by its personnel. The president of the university, or more generally some other appropriately designated authority, has the ultimate responsibility for decisions on copyright matters. It is usually advantageous to delegate responsibility and authority on copyright matters to an appropriate administrator, such as the institution's legal counsel, a vice president for research, the dean of the faculty, or another administrator. The statement of policies and procedures should define clearly the responsibilities and authority of the college or university copyright administrator. These duties may include providing assistance, guidance in obtaining a publisher, and other related services on copyright matters to the institution's personnel.

Adopted procedures should provide for the copyright administrator, the author, and other concerned parties to arrive at a mutually acceptable copyright agreement within the provisions of the institution's policy. One mechanism for negotiation of copyright matters is to use a three-member panel consisting of the author or the author's representative, the institution's copyright officer, and a third member agreed on by the first two. Alternatively, a copyright advisory committee may prove helpful in evaluating ownership, disposition, and distribution of royalty income relating to copyrightable materials. Whatever the procedure for administering copyright matters, there should be specific provisions for appeal.

College or university procedures may provide for prior review of all programs expected to generate copyrightable materials with full or significant partial support by the university or a sponsor in order that an advance determination can be made concerning rights, disposition, and income distribution. This review is normally accomplished by the intended authors, the copyright officer, and any others designated by institutional policy. A mutually acceptable advance agreement covering the determination of rights, disposition, and income distribution may be an important part of the project file for those projects producing copyrightable materials with partial or total support by the institution or by a sponsor. The advance agreement may be revised as the project progresses.

Alternatively, an institution may request an annual report from faculty and staff on all copyrightable material generated during the reporting period. Those materials developed with partial or full institutional or sponsor support should be reviewed by the copyright officer and by others designated by college or university procedures to make recommendations on the disposition of rights to copyrightable material and income participation.

If an institution adopts specific policies and procedures relative to the rights, disposition, and income distribution relating to copyrightable materials, it may be desirable to incorporate

reference to these provisions in employment contracts where appropriate.

Faculty and staff should be encouraged to participate in formulating institutional copyright policies and procedures. Faculty and staff can also be involved in the governance of copyright matters to insure that policies and procedures are equitable and workable. The nature and extent of student participation in copyright policies and procedures may vary with the institution and its policy on copyrightable material generated by students.

In designing and implementing institutional policies and procedures for copyrightable materials, care must be taken to protect the initiative and rights of individual authors. Similarly, consideration should be given to copyrightable work that is the result of a group effort. These policies and procedures should reasonably insure the requisite control and accountability by the university for resources allocated to partial or full support of university personnel engaged in producing copyrightable materials.

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Copyrightable Materials and Other Intellectual Property

This Guide Memo describes Stanford policies and associated administrative procedures for copyrightable materials and other intellectual property. Its objectives are:

- To enable the University to foster the free and creative expression and exchange of ideas and comment;
- To preserve traditional University practices and privileges with respect to the publication of scholarly works;
- To establish principles and procedures for sharing income derived from copyrightable material produced at the University; and
- To protect the University's assets and imprimatur.

Section headings for this Guide Memo are:

1. COPYRIGHT POLICY
2. ADMINISTRATION OF POLICY
3. OTHER INTELLECTUAL PROPERTY
4. TANGIBLE RESEARCH PROPERTY
5. EXPLANATION OF TERMS

1. COPYRIGHT POLICY

a. General Policy Statement — Copyright is the ownership and control of the intellectual property in original works of authorship which is subject to copyright law. It is the policy of the University that all rights in copyright shall remain with the creator unless the work is a work for hire (and copyright vests in the University under copyright law), is supported by a direct allocation of funds through the University for the pursuit of a specific project, is commissioned by the University, or is otherwise subject to contractual obligations.

b. Books, Articles, and Similar Works — In keeping with tradition, the University does not claim ownership of books, articles, and similar works, the intended purpose of which is to disseminate the results of academic research or scholarly study. Such works include those of students created in the course of their education, such as dissertations, papers and articles. Similarly, the University claims no ownership of popular nonfiction, novels, poems, musical compositions, or other works of artistic imagination which are not institutional works. If title to copyright in works defined within this section 1.b. vests in the University by law, the University will, upon request and to the extent consistent with its legal obligations, convey copyright to the creators of such works.

c. Institutional Works — The University shall retain ownership of works created as institutional rather than personal efforts — that is, works created for University purposes in the course of the creator's employment. For instance, work assigned to staff programmers is "work for hire" as defined by law (regardless of whether the work is in the course of sponsored research, unsponsored research, or non-research activities), as is software developed at the Center for Information Technology or Research Libraries Group, and the University owns all rights, intellectual and financial, in such works.

d. **Scholarly Projects Specifically Funded by Sponsored Agreements or Other University Funds** — All individuals who participate in sponsored agreements or other research or scholarly projects specifically supported by University funds must sign an Agreement with the University (Form SU-18, as amended) under which copyrightable works resulting from such projects are assigned to the University except as provided under paragraph b. above. Subject to sections b. and c. above and g. below, and to the provisions of the Agreement, royalty income received by the University for such works will normally be distributed in accordance with University policy (see section 2.b.iii. below). Copyrightable works may also be subject to the University's policies on Tangible Research Property (see Guide Memo 77).

e. **Commissioned Works of Non-employees** — Under the Copyright Act, commissioned works of non-employees are owned by the creator and not by the commissioning party, unless there is a written agreement to the contrary. University personnel must, therefore, generally require contractors to agree in writing that ownership is assigned to the University.

Examples of works which the University may commission non-employees to prepare are:

- Illustrations or designs
- Artistic works
- Architectural or engineering drawings
- Forewords and introductions
- Computer software
- Reports by consultants or subcontractors

f. **Videotaping and Related Classroom Technology** — Any videotaping, broadcasting, or televising of classroom, laboratory, or other instruction, and any associated use of computers, must be approved in advance by the cognizant academic dean (or, in the case of SLAC, by the Director), who shall determine the conditions under which such activity may occur and, in conjunction with the Vice Provost and Dean for Graduate Studies and Research, resolve questions of ownership, distribution and policy.

g. **Contractual Obligations of the University** — The University in all events shall have the right to perform its obligations with respect to copyrightable works, data, prototypes and other intellectual property under any contract, grant, or other arrangement with third parties, including sponsored research agreements, license agreements and the like.

NOTE: University resources are to be used solely for University purposes and not for personal gain or personal commercial advantage, nor for any other non-University purposes.

2. ADMINISTRATION OF POLICY

a. **Determinations of Ownership and Policy in Unclear Cases** — Questions of ownership or other matters pertaining to materials covered by this Guide Memo shall be resolved by the cognizant vice president or designee in consultation with the Sponsored Projects Office and the General Counsel's Office. The Vice Provost and Dean of Graduate Studies and Research is the designee of the Provost, who is the cognizant vice president for all University research, scholarship and education.

b. **Licensing and Income Sharing** —

i. **Licensing** — Computer databases, software and firmware, and other copyrightable works owned by the University, are licensed through its Office of Technology Licensing. Exceptions to this procedure must be approved in advance by the Vice Provost and Dean

of Graduate Studies and Research.

ii. **Proprietary Protection** — The Office of Technology Licensing seeks the most effective means of technology transfer for public use and benefit. To that end, the Director will determine whether to apply for patent protection in addition to or instead of copyright with respect to particular software, firmware or other computer-related copyrightable materials owned by or assigned to the University.

iii. **Royalty Distribution** — If patent protection is being sought, distribution of royalties will be handled in accordance with the University's Patent Policy (Guide Memo 75). If copyright protection alone is claimed, royalties will normally be allocated in a similar manner, with the "inventor's share" allocated among individuals identified by the Director of the Office of Technology Licensing, in consultation with the principal investigator (or department head if not under a sponsored agreement), based on their relative contributions to the work. The Director may, after consultation, conclude that any royalty distribution to individuals would be impracticable or inequitable, however (for example, when the copyrightable material has been developed as a laboratory project, or where individual royalty distribution could distort academic priorities). In such cases, the "inventor's share" may be allocated to a research or educational account in the laboratory where the copyrightable material was developed. Such determination will be made on a case-by-case basis by the Director of the Office of Technology Licensing after consultation with the principal investigator or department head, and is subject to the approval of the Vice Provost and Dean of Graduate Studies and Research.

iv. **Assignments** — No assignment, license or other agreement may be entered with respect to copyrighted works owned by the University except by an official specifically authorized to do so.

Questions regarding licensing and royalty-sharing should be addressed to the Office of Technology Licensing.

c. **Use of the University Name in Copyright Notices** — If copyrightable materials are published without a copyright notice, the copyright may be lost and the work may enter the public domain. The following notice on University-owned materials will protect the copyright:

Copyright © [year] The Board of Trustees of The Leland Stanford Junior University. All Rights Reserved.

No other institutional or departmental name is to be used in the copyright notice, although the name and address of the department to which readers can direct inquiries may be listed below the copyright notice. The date in the notice should be the year in which the work is first published, i.e., distributed to the public or any sizeable audience.

Additionally, works should be registered with the United States Copyright Office using its official forms. Forms may be obtained from the General Counsel's Office, to which questions concerning copyright notices and registration also may be addressed.

d. **Copyright Agreements** — The University may require faculty, staff, students, visiting scholars and/or other research participants to sign agreements implementing this Guide Memo as a condition of employment or as a condition of participation in a sponsored project, or as may be necessary to comply with the terms of grants or contracts or to establish record title in the University (see section 1.e. above).

e. **Copying of Works Owned by Others** — Members of the University community are cautioned to observe the rights of other copyright owners. Contact the General Counsel's Office for University policies pertaining to copying for classroom use. Policies regarding copying for library purposes may be obtained from the Office of the Director of Libraries. Questions should be addressed to the General Counsel's Office.

f. **Sponsored Agreements** — Contracts and grants frequently contain complex provisions relating to copyright, rights in data, royalties, publication and various categories of material including proprietary data, computer software, licenses, etc. Questions regarding the specific terms and conditions of individual contracts and grants, or regarding rules, regulations and statutes applicable to the various government agencies, should be addressed to the Patent and Copyright Affairs group in the University's Sponsored Projects Office.

g. **General Advice and Assistance** — The Associate Director for Intellectual Property Administration in the Sponsored Projects Office, the Director of Technology Licensing, and staff counsel in the General Counsel's Office are available to advise on questions arising under this Guide Memo, and to assist with the negotiation and interpretation of the provisions of proposed formal agreements with third parties.

3. OTHER INTELLECTUAL PROPERTY

a. **Trade and Service Marks** — Trade or service marks relating to goods or services distributed by the University shall be owned by the University. Examples include names and symbols used in conjunction with computer programs or University activities and events. Consult the Office of Technology Licensing for information about registration, protection, and use of marks.

b. **Patents** — See Guide Memo 75.

c. **Proprietary Information** — Proprietary information arising out of University work (e.g., software developed at the Center for Information Technology) shall be owned by the University.

NOTE: All research involving proprietary information is subject to the University's Policy Guidelines on Secrecy in Research, adopted by the Academic Senate and reprinted in the Faculty Handbook.

4. TANGIBLE RESEARCH PROPERTY

See Guide Memo 77. The University encourages the prompt and open exchange, for others' scientific use, of software and firmware resulting from research. A Software Distribution Center has been established by the Office of Technology Licensing as a mechanism to distribute computer software efficiently to the largest number of potential users.

5. EXPLANATION OF TERMS

a. **Copyright** —

i. **Copyrightable Works** — Under the federal copyright law, copyright subsists in "original works of authorship" which have been fixed in any tangible medium of expression from which they can be perceived, reproduced, or otherwise communicated, either

directly or with the aid of a machine or device. These works include:

- Literary works such as books, journal articles, poems, manuals, memoranda, te: computer programs, instructional material, databases, bibliographies;
- Musical works including any accompanying words;
- Dramatic works, including any accompanying music;
- Pantomimes and choreographic works (if fixed, as in notation or videotape);
- Pictorial, graphic and sculptural works, including photographs, diagrams, sketche: and integrated circuit masks;
- Motion pictures and other audiovisual works such as videotapes;
- Sound recordings.

ii. **Scope of Copyright Protection** — Copyright protection does not extend to any idea, process, concept, discovery or the like, but only to the work in which it may be embodied, illustrated, or explained. For example, a written description of a manufacturing process is copyrightable, but the copyright only prevents unauthorized copying of the description; the process described could be freely copied unless it enjoys some other protection, such as patent.

Subject to various exceptions and limitations provided for in the copyright law, the copyright owner has the exclusive right to reproduce the work, prepare derivative works, distribute copies by sale or otherwise, and display or perform the work publicly. Ownership of copyright is distinct from the ownership of any material object in which the work may be embodied. For example, if one purchases a videotape, one does not necessarily obtain the right to make a public showing for profit.

b. **Works for Hire** — "Work for hire" is a legal term defined in the Copyright Act as "a work prepared by an employee within the scope of his or her employment." This definition includes works prepared by employees in satisfaction of sponsored agreements between the University and outside agencies. Certain commissioned works also are works for hire if the parties so agree in writing. Other examples of works for hire are given in section 1.c.

The employer by law is the "author," and hence the owner, of works for hire for copyright purposes. Ownership in a work for hire may be relinquished only by an official of the University specifically authorized to do so.

c. **Other Intellectual Property** —

i. **Trade and Service Marks** — Trade and service marks are distinctive words or graphic symbols identifying the source, producer, or distributor of goods or services.

ii. **Trade Secrets** — "Trade secret" is a legal term referring to any information, whether or not copyrightable or patentable, which is not generally known or accessible, and which gives competitive advantage to its owner. Trade secrets are proprietary information.

iii. **Patents** — See Guide Memo 75.

MASSACHUSETTS INSTITUTE OF TECHNOLOGY

COPYRIGHT POLICY

OBJECTIVES

The copyright policy of the Institute seeks to protect and promote the traditional academic freedom of the Institute's faculty, staff, and students in matters of publication; seeks to balance fairly and reasonably the equitable rights of authors, sponsors, and the Institute; and attempts to ensure that any copyrightable material in which the Institute has an equity interest is utilized in a manner consistent with the public interest.

OWNERSHIP AND DISPOSITION OF COPYRIGHTABLE MATERIAL

Copyright ownership and the rights thereof are terms defined by Federal law. The Institute believes that its copyright policy objectives will best be attained within the context of the Federal law by defining the equities of ownership of copyrightable material in terms of the following categories:

A. Copyright ownership of all material (including software, but excluding theses) which is developed in the course of or pursuant to a sponsored research or other agreement shall be determined in accordance with the terms of the sponsored research or other agreement, or in the absence of such terms, the copyright shall become the property of the Institute.

Comment: Normally, research contracts sponsored by the government provide the government with specified rights in copyrightable

material developed in the performance of the research. These rights may consist of title to such data vesting solely in the government or the reservation of a royalty-free license to the government, with title vesting in the Institute. In some cases, the government prohibits any private copyright ownership. Grants and other types of sponsored research agreements, whether by the government or by private industry, may, on the other hand, provide no specific provision concerning rights in such material.

The purpose of this provision (which applies to all academic and research employees of the Institute) is to ensure that the Institute will be free to dispose of all such data in a manner consistent with its obligations to the sponsor and to the public.

In cases where a researcher wishes to publish Category A material in journals or other media, Federal law now requires the written consent of the owner of the copyright. Requests for such consent, which will normally be routinely provided, should be addressed to the Patent, Copyright, and Licensing Office.

B. Copyright ownership of all material (including software, but excluding theses) which is developed with the significant use of funds, space or facilities administered by the Institute, including but not limited to classes and laboratory facilities, but without any M.I.T. obligation to others in connection with such support shall reside in the Institute.

Comment: The Institute shall exercise its rights in such material in a manner that will best further M.I.T.'s basic aims as an educational institution, giving full consideration to making the

material available to the public on a reasonable and effective basis, avoiding unnecessary exclusions and restrictions, and providing adequate recognition of the authors.

In this respect M.I.T. recognizes and reaffirms the traditional academic freedom of its faculty and staff to publish freely without restriction. In keeping with this philosophy, M.I.T. will neither construe the provision of office or library facilities as constituting significant use of Institute space or facilities, nor will it construe the payment of salary from instructional accounts as constituting significant use of Institute funds, except for those situations where the funds were paid specifically to support the development of such material.

Publications not prepared within the scope of an Institute employee's duties are excluded from the ownership provisions of this category. Textbooks developed through the use of classes are excluded from the provisions of this category, unless such textbooks were developed using Institute-administered funds paid specifically to support such textbook development.

All persons who have developed copyrightable material through the significant use of M.I.T. space, funds, or facilities shall be required to transfer copyright ownership of such material to the Institute as a condition of such use.

C. Copyrightable material not within the provisions of Categories A and B of this policy shall be the sole property of the author, except for theses, as discussed below.

Theses created by students shall be governed by the following provisions:

D. Copyright ownership of theses generated by research which is performed in whole or in part by the student with financial support in the form of wages, salaries, stipend or grant from funds administered by the Institute shall be determined in accordance with the terms of the support agreement, or in the absence of such terms, shall become the property of the Institute.

E. Copyright ownership of theses generated by research performed in whole or in part utilizing equipment or facilities provided to the Institute under conditions that impose copyright restriction shall be determined in accordance with such restrictions.

F. Copyright in theses not within the provisions of Categories D and E of this policy shall be the property of the author. However, the student must, as a condition of a degree award, grant royalty-free permission to the Institute to reproduce and publicly distribute copies of the thesis.

As with faculty and research staff, the Institute wishes to encourage broad dissemination of all such material. Requests for permission to publish Category D and E theses should be addressed to the Patent, Copyright, and Licensing Office. (See also Faculty Regulation 2.71 and the Graduate School Manual.)

COPYRIGHT ROYALTIES

Royalty income received by the Institute through the sale, licensing, leasing or use of copyrightable material, under

Categories A and B, in which the Institute has acquired a property interest, will normally be shared with the author and the department, laboratory or center within the Institute where the material originated. Authorship shall be determined by the director of the originating department, laboratory or center. The gross royalties received by the Institute will usually be distributed as follows:

1. To the Institute, 60%;

2. To the author(s), a total of:

   35% of the first $50,000 in accumulated gross royalties,
   25% of the next $50,000 in accumulated gross royalties,
   15% of the accumulated gross royalties thereafter;

3. To the originating department, laboratory, or center within the Institute:

   5% of the first $50,000 in accumulated gross royalties,
   15% of the next $50,000 in accumulated gross royalties,
   25% of the accumulated gross royalties thereafter.

Where, after review, authorship cannot be determined, the percent share of royalties intended for the author shall be distributed instead to the originating department, laboratory, or center. (As used herein, the phrase "originating department, laboratory or center" means the department, laboratory or center which administered the funds, space or facilities used in developing the copyrightable material.)

The Institute reserves the right at its discretion to deduct from gross royalty income prior to any such distribution, expenses such as litigation which may be incurred in enforcing or defending the copyright or in licensing the copyrightable material.

INVENTION AND COPYRIGHT AGREEMENTS

The policies set forth above constitute an understanding which is binding on Institute faculty and staff, students, and others as a condition of their participating in Institute research programs or their use of funds, space, or facilities. Where the Institute may have an obligation to assign rights in inventions or copyrights to a sponsor, or may itself acquire rights under this policy, it will require a formal invention and copyright agreement.

September, 1979

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

COPYRIGHT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

Workshop Materials - NCURA Intellectual Property Series - 1984

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Introduction to

COPYRIGHT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

COPYRIGHT CLAUSES IN INDUSTRIAL RESEARCH AGREEMENTS

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UNIVERSITY OWNERSHIP OF COPYRIGHTABLE MATERIALS

Most universities appear to have adopted the position that copyrightable materials generated in the course of sponsored research projects should be owned by the university with some form of license rights to the sponsor.

This may reflect concern over maintaining the integrity of the author's work and ensuring control over the institution's academic prerogatives with respect to publication and dissemination. It may also reflect the view that the copyright law is a vehicle for technology transfer, comparable in many respects to the patent law.

An institutional policy reflecting this philosophy is as follows:

> "Introduction: University retains the ownership of, and copyright in, all copyrightable materials first produced or composed in the performance of University research agreements, except that a sponsor is normally entitled to ownership of the physical embodiments of all such materials which are stipulated in the contract as deliverables. The sponsor is also normally entitled to a copyright license in all such materials, as defined below.
>
> "University believes that by retaining such ownership it can most effectively achieve the objectives of its copyright policy which, in most respects, parallel the objectives of its patent policy. These objectives include protecting the public interest, providing recognition to authors and their department and/or laboratory, and supporting University education and research programs with royalty income. Further, retention of copyright ownership by University will help to minimize conflicts arising from prior or concurrent Federal sponsorship with respect to rights in data.
>
> "In addition, University believes that the retention of copyright ownership will insure that the integrity of an author's work is protected in a way that will be of maximum benefit to the author, University and the public at large."

LICENSING OPTIONS

Use of all materials for any purpose

Some universities will provide the research sponsor with a royalty-free, non-exclusive license to use for any purpose all copyrightable materials generated in the performance of the research. The following clause is representative:

> "Copyrights. Title to and the right to determine the disposition of any copyrights, or copyrightable materials, first produced or composed in the performance of the research shall remain with the university; provided, however, that the university shall grant the sponsor an irrevocable, royalty-free, nonexclusive license to reproduce, translate, perform, and distribute for any purpose whatsoever, all such copyrighted materials."

As set forth above the basic clause would apply to software (including computer data bases and supporting documentation). Some universities, however, exclude software from the operation of the clause, particularly when the software is not a deliverable under the contract but an incidental by-product or a tool used for the conduct of the research.

Use of software for sponsor internal purposes only

Because of the technology transfer potential and commercial possibilities of computer-related materials, some universities as noted above, differentiate them from other copyrightable material, particularly if they are not a deliverable but only a by-product of the research, and license them in a manner similar to patents.

Where this is the case, the sponsor could be granted the right to use the material for its own internal purposes only, and possibly for the use of its subsidiaries. As is the case with nonexclusive patent licenses to sponsors, some universities will grant this right royalty-free, while others believe that some royalty payment should be made.

The most likely situation in which a royalty would be sought is that in which the sponsor is dominant in the market, so that the granting of a royalty-free, non-exclusive license would preclude the university from licensing the work to others for any significant royalties.

Providing the sponsor with a license to copyrightable data bases, software and documentation may be accomplished by adding a clause such as the following to the basic copyright clause:

> "...except, however that with respect to copyrightable computer data bases, software and docmentation, the university shall grant the sponsor an irrevocable, royalty-free (or royalty-bearing),

non-exclusive license to use, reproduce, translate, display and perform such copyrightable materials for the internal purposes of the sponsor and of the sponsor's subsidiaries, but not including the right to sell, distribute or license the materials to others, either independently or in conjunction with the sale of hardware or other software."

As stated, the sponsor in this case would have the right to use the software in connection with product design, manufacturing processes, etc., but would not have the right to sell the software outright as a product, license it to others, or use it as part of hardware or other software products which it sells. The university, therefore, is free to license the software out of its portfolio to others for royalties.

Non-exclusive license to distribute and sublicense

In the previous section, we have discussed licensing the sponsor for internal operations only and reserving the right to license third prties.

Some industrial sponsors, however, may wish to receive a license which permits them to sell and to distribute the copyrighted material either by itself or in conjunction with sponsor's hardware, and/or to sublicense others for the same purposes, or to use the material in consulting services normally offered to the public. Licenses for this type of activity would be granted to the sponsor on terms and conditions, including reasonable royalty rates, to be negotiated.

It should be noted that the licensing of such materials on a non-exclusive basis with the right to sublicense differs from patent licensing in which the right to sublicense is normally granted only in connection with exclusive licenses.

Where it is appropriate to grant the sponsor a royalty-bearing non-exclusive license to use copyrighted software and related material in that part of its business offered to the public, or in conjunction with its products, this may be accomplished by adding a clause such as the following to the basic copyright clause:

"...except, however, that with respect to copyrightable data bases, software and documentation, the university shall grant to the sponsor a non-exclusive, royalty-bearing right to use, reproduce, translate, display, perform, distribute, sell and sublicense commercially for any purposes whatsoever, such materials at such royalty rates and upon such other terms and condition as may be negotiated in good faith by the parties."

Exclusive licenses

Exclusive licenses to computer data bases, software, and documentation are less commonly granted to sponsors than exclusive licenses for patents, and are more likely to be found where the university is licensing a software company to manage, maintain, distribute and sublicense its software commercially. Under an exclusive license, due diligence require-

ments, performance milestones, and minimum annual royalties are likely to be included in the same manner as with exclusive patent licenses.

Derivative works

In Unit 6 of this series we reviewed the subject matter of copyrights, including Section 103 of the Copyright Act, which deals with compilations and derivative works.

The right to prepare derivative works is one of the copyright owner's basic rights under the Act and may be specifically conveyed if the university wishes. It greatly enhances the value of the license right granted to the sponsor by allowing the sponsor to write new software based on the original work which is the subject of the license.

Permitting a sponsor to prepare derivative works to software licensed only for internal operations is of some value and is often included in the sponsor's licensing rights. It is of greatest value, however, to a sponsor that wishes to adapt software for a particular piece of equipment which it manufactures or sells, or to a sponsor that is in the business of enhancing basic software so that it may be used by a broader customer base.

Since the writing of derivative works may dilute the value and integrity of the original work, the university may wish to give careful consideration before granting this right to the sponsor and appropriately reflect it in the license fee or royalty rates established.

In the clauses cited in the previous two sections, the right to prepare derivative works can be granted by adding the following phrase to the list of rights granted:

"...including the right to prepare derivative works,"

Option agreements

The copyright clauses cited above refer simply to the granting of a license, or to the granting of a license at reasonable royalties and on terms to be negotiated. This is also common in patent clauses.

Some sponsors will wish, however, to know in more detail what the rates and terms may be. In some cases they may ask to review a standard university copyright licensing agreement, which may satisfy such sponsors without the need for further contractual language to specify rates and terms. In some cases, as in patents, they may wish the principal terms of the software license to be defined in the contract.

Another approach in use at a few universities is to actually negotiate an option to acquire a license and sign the option agreement at the same time as the research contract. The option agreement spells out the nature of the option right and license, and the terms and conditions which will apply, to the extent that is feasible prior to identifying the copyrightable material. Where this approach is used, the following clause

is typical and the option agreement would cover the specifics:

> "Copyright. (a) Copyright in materials, including computer software, created or fixed in a tangible medium of expression during the performance of the work funded under this Agreement shall vest in the University. To the extent that the University has the legal right to do so, University shall grant sponsor an option to license the materials on reasonable terms and conditions, including reasonable royalties, as the parties shall mutually agree in writing."

Some universities which treat research contracts as public documents except for business details, such as royalty-rates, prefer to cover such details in a separate option agreement.

NATIONAL COUNCIL OF UNIVERSITY RESEARCH ADMINISTRATORS

Introduction to

SOFTWARE LICENSING AGREEMENTS

Workshop Materials - NCURA Intellectual Property Series - 1984

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Introduction to

SOFTWARE LICENSING AGREEMENTS

This paper is one unit in a series prepared by the sponsored program and patent offices at M.I.T. for use in their own professional development program and in the workshop on intellectual property at the 1984 NCURA annual meeting. The NCURA Committee on Professional Development is making it available to NCURA members who need a basic understanding of intellectual property in connection with the negotiation and administration of sponsored research agreements.

Copies of this and other units in the series may be obtained from NCURA Headquarters.

Other Guidance

This series is intended to provide university research administrators with only an introduction to the basic concepts of intellectual property. Those who require a more complete understanding of the subject will wish to study other materials cited herein or developed from time to time by such organizations as the Society of University Patent Administrators, the Licensing Executives Society, the COGR Committee on Patents, Copyrights and Rights in Data, and the National Association of College and University Attorneys.

User Feedback

This material is intended to be self-improving. Users are, therefore, invited to forward comments, suggestions and new materials for the next revision to:

Chairman, Committee on Professional Development
National Council of University Research Administrators
One Dupont Circle, N.W., Suite 618
Washington, D.C. 20036

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Introduction to

SOFTWARE LICENSING AGREEMENTS

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SOFTWARE LICENSING AGREEMENTS

The most common type of copyright licensing resulting from sponsored research programs involves computer software, including data bases and documentation.

Much of this licensing will be from the so-called "portfolio," i.e., those copyrightable works, resulting from the university's research and educational programs, which are available for licensing to any qualified licensee and may be marketed by the university or by a software house or similar organization on the university's behalf. Licenses are of various types. Some run directly to the end user, some to a software house for licensing to others, and some may be to distributors.

For the purposes of this introductory course, we will be primarily concerned with the type of license granted to a research sponsor as part of contract negotiations. The sample agreement we will refer to, however, will be identical in many respects to the licenses which would be granted to third parties out of the portfolio under like circumstances.

University research administrators should be aware, of course, that there is a broad range of copyright and other forms of licensing which may result from university activities, including the following:

Licensing of literary works, such as textbooks
Videotapes, instructional materials and courses
Trademarks and LOGOs

NON-EXCLUSIVE LICENSE TO A RESEARCH SPONSOR

Sample Agreement - Commentary

The essential provisions of a non-exclusive software license to a research sponsor are outlined below. They are illustrated in the attached sample agreement which is one of several types in use at MIT.

PARTIES

As in all agreements, the parties must be identified by name and place of business and by their "hereafter referred to as..." designation, such as Licensor and Licensee.

RECITALS

The recitals (i.e., the Whereases) help to identify and characterize the type of license and the general nature of the agreement at the outset. In some cases, the recitals are also used to identify the data base, software and other material to be licensed. More commonly, these are detailed in a separate provision with a title such as "Licensed Materials." It may also be helpful in some circumstances to attach a complete list of all the documentation and other materials to be provided as an Appendix so that there is no question later as to the completeness of the transfer.

ARTICLES

1. LICENSE RIGHTS

As discussed in Part III, Section 1., the agreement must clearly specify the type of license, whether exclusive or non-exclusive, and the rights granted, and may also list the rights specifically excluded.

The right to prepare derivative works was also discussed in Part III, where we noted that it is of greatest value to a sponsor that may wish to modify the software to adapt it to specific computer equipment or increase the general utility of the software.

2. TERM

Term of the license should be specified in precise language. The license granted may be perpetual, i.e., for the life of the copyright. However, it is highly doubtful that any software program would have a useful life of that length. It is more common to provide for a specific

license term such as five years, ten years, etc., or, as the sample agreement provides, such term may be set out as running automatically from year to year unless terminated. Given the uncertain commercial life of software, the self-renewing term offers the most flexibility to meet the changing commercial markets.

3. ROYALTIES

The payment of royalties can take many forms and choosing the one most appropriate to the particular transaction is primarily a business decision. In many cases, especially when the license granted is for end use only, the licensing fee is a one-time, up-front payment. In other cases, as where the software will be distributed by the licensee, a running royalty based on the net sales price of the software being licensed is combined with an initial up-front payment. In the sample agreement, a running royalty combined with an initial down payment is used. The initial payment may or may not be used as a credit against royalties, depending on negotiations. In those situations where a combination of initial payment and running royalties is used, the initial payment is considerably less than the fee expected when the license is to be fully paid-up without any running royalty. Further, the concept of a minimum annual royalty may be useful as a method of ensuring that the licensee has an incentive for performing under the agreement, and is used particularly in exclusive software licenses in lieu of performance milestones.

4. DELIVERY OF MATERIALS

It is important that the materials to be delivered under the license are clearly identified so that there is no question that the transfer has been completed and the licensor's obligations fully met. If the subject matter of the license has been detailed in an appendix to the agreement, the materials to be delivered can usually be specified by reference to it, with additions or deletions, if any. Otherwise an appendix can be added.

This clause in the sample agreement includes a provision requiring the licensee to take care that the copyright notation is retained on all copies of the material licensed which are made by the licensee. In addition, it is helpful to the licensee for the licensor to specifically address the content of the copyright notice and the requirements for placement of the notice. This can best be done in an appendix such as that included as Appendix B to the sample agreement.

The "Delivery" clause normally stipulates that the licensor provides the material on an "as is" basis and that licensor is not required to test or perform any debugging. In the sample agreement MIT does agree to provide on-site installation assistance at its discretion and at licensee's expense. This clause may be expanded to provide other minimum assistance as the program developers deem necessary.

Acceptance Testing: Although not included in the sample agreement, a clause is sometimes used which allows a period for acceptance testing. If it turns out that the program is not suitable in practice for the

licensee's purposes, licensee can terminate the license by reimbursing the licensor's out-of-pocket costs. A clause of this type might read as follows:

> "Licensee may conduct acceptance tests of the Program during the thirty (30) days following delivery of the Program by Licensor. During this acceptance period, Licensee may terminate this Agreement if Licensee finds that the Program is not suitable for Licensee's purposes. Upon such termination, Licensee shall immediately return the Program and its manuals to Licensor at no cost to Licensor, and shall reimburse Licensor for those costs incurred by it in reproducing and delivering the Program and accompanying materials to Licensee. Upon receipt of the Program and Manuals, Licensor shall refund to Licensee any initial license fee which may have been paid by Licensee."

5. CORRECTIONS

The sample license agreement contains a provision under which the Licensor agrees to use its best efforts to correct malfunctions resulting from errors which are internal to the code, since errors of that type obviously limit the ability of the program to serve its intended purpose. The Licensor does not, however, agree to modify the program to serve purposes or provide features not intended in the program as delivered.

6. REPORTS AND RECORDS

This clause clearly states the licensee's obligations to maintain records of transactions on which royalties are due. It also provides for an inspection of records by the licensor.

The second part of the clause specifies a semi-annual report of transactions and payment of royalties due.

7. WARRANTIES

A clause should be included in every agreement, such as the one in the sample agreement, to the effect that no warranty of any kind, express or implied, is provided. Warranty clauses vary quite widely, and in some of them a limited warranty may in fact be included. Because of certain legal decisions, it is considered necessary by many lawyers that the warranty disclaimer be in capital letters to be legally valid and binding.

8. LIMITATION OF LIABILITY

A limitation of liability provision is frequently included, such as the one in the sample agreement, so that the Licensor is not liable for problems arising due to use of program by the licensee or its distributees at a later date. As with warranties, there are variations in such clauses,

and some Licensors accept limited liability where it results directly from acts solely under the control of the Licensor, as°, for example, when the licensed software infringes the copyright of a third party.

9. TERMINATION

A termination clause should be included in all software licenses where a licensee may breach its obligations under the license, especially with regard to royalties, the copyright notice requirement, or non-distribution. The termination clause should provide for a notice and cure period for breach; termination in the case of bankruptcy, and in the case of a non-exclusive license, termination at will for a licensee that no longer has use for the licensed program.

10. EFFECTS OF TERMINATION

It is important to enumerate the steps to be taken to wind up the licensee's licensing rights. The licensor should require written assurances that all copies of the software in the licensee's possession have been destroyed except for a single copy which, under the copyright law, may be retained by the licensee for archival purposes. It should also be clearly stated that the licensee's sublicensees should have continued use of the software despite termination of the license to the licensee.

11. NON-USE OF NAMES

This clause is self-explanatory and is normally included for the same reasons that it is included in research contracts.

OTHER CLAUSES (12 and 13)

The remaining clauses are the housekeeping and administrative clauses which parallel those normally contained in any research contract under such headings as:

- Notices, addresses
- Governing law
- Entire agreement
- Modifications
- Severability
- Assignability
- Waiver of rights

SOFTWARE LICENSE AGREEMENT

This Agreement, made and entered into this _____ day of _____, 19__, (the Effective Date) by and between the MASSACHUSETTS INSTITUTE OF TECHNOLOGY, a corporation duly organized and existing under the laws of the Commonwealth of Massachusetts and having a principal office at 77 Masschusetts Avenue, Cambridge, Massachusetts 02139 U.S.A. (hereinafter referred to as M.I.T.) and _____, a corporation organized under the laws of _____ and having a principal office at _____ (hereinafter referred to as LICENSEE).

WHEREAS, M.I.T. is the owner of certain rights, title and interest in the computer program and related documentation, entitled "_____" (as set forth in Exhibit A and hereinafter referred to as the "Program") and has procured copyright therefor and has the right to grant licenses to reproduce and distribute the Program and wishes to have the Program utilized in the public interest; and

WHEREAS, LICENSEE wishes to obtain a nonexclusive right and license to copy and use the Program upon the terms and conditions hereinafter set forth.

NOW, THEREFORE, in consideration of the foregoing and of the mutual covenants, terms and conditions herein contained, the parties agree as follows:

1. LICENSE

M.I.T. hereby grants to LICENSEE nonexclusive, nontransferable (except as hereinafter set forth), worldwide rights to use, reproduce, display, perform and distribute the Program by sale, lease or sublicense for end-use (hereinafter called "RIGHTS GRANTED").

2. TERM

The term of this Agreement shall be for one (1) year from the Effective Date and shall be automatically renewed from year to year thereafter, unless sooner terminated under the provisions of Paragraph 8 hereof.

3. ROYALTIES

In consideration of the RIGHTS GRANTED herein, LICENSEE shall pay to M.I.T., in accordance with the following schedule:

A. An Initial Payment

Upon execution of two copies of this Agreement, LICENSEE shall pay to M.I.T. the sum of $_____, which payment shall be deemed earned, but which shall be credited against future royalties arising pursuant to Paragraph 2.B below.

B. Royalty Payments

LICENSEE shall pay M.I.T. a royalty of _____% of the Net Sales Price of each Program which shall be sold, leased, licensed or otherwise distributed by LICENSEE.

Net Sales Price shall mean LICENSEE's billings for the Program, less the sum of the following:

1. Discounts allowed in amounts customary in the trade.

2. Sales, tariff duties and/or use taxes directly imposed and with reference to particular sales.

3. Outbound transportation prepaid or allowed.

4. Amounts allowed or credited on returns.

4. DELIVERY OF MATERIALS

4.1 Upon execution of two copies of this Agreement and payment by LICENSEE of the initial payment in accordance with paragraph 3 above, M.I.T. shall deliver to LICENSEE ____ copy(ies) of the Program as defined in Exhibit A to this Agreement.

4.2 LICENSEE acknowledges that title to the Program (including copyright) shall remain with M.I.T. and that any copies of the Program or portion thereof made by LICENSEE in accordance with the RIGHTS GRANTED hereunder shall include thereon an M.I.T. copyright notice as set forth in Exhibit B to this Agreement. Such notice shall be affixed to all copies or portions thereof in such manner and location as to give reasonable notice of M.I.T.'s claim of copyright and shall be in conformity with all applicable regulations of affixation prescribed by the United States Register of Copyright.

4.3 LICENSEE accepts the above materials on an "as is" basis. Accordingly, M.I.T. shall not be required to load the Program onto LICENSEE's volumes, test for proper operation, perform any debugging, make any corrections or otherwise maintain the Program at any time other than provided under Paragraph 5 hereunder. M.I.T. may, in its sole discretion, at the request of LICENSEE provide on-site installation assistance so long as LICENSEE shall bear the cost of all expenses incurred by M.I.T. in providing such on-site installation assistance.

5. CORRECTIONS

M.I.T. shall use its best efforts, at no additional cost, to correct MALFUNCTIONS that arise in that version of the Program delivered to LICENSEE. MALFUNCTIONS, as used herein, shall mean errors deemed by M.I.T. to be internal to the Program code licensed hereunder. M.I.T. does not hereby agree to develop or provide LICENSEE with any updates, enhanced capabilities or other features not present in the version of the Program first delivered to LICENSEE under this Agreement.

In addition, LICENSEE specifically agrees that if any error is determined by M.I.T. to be of user origin, M.I.T. shall be under no obligation to correct such error.

6. REPORTS AND RECORDS

6.1 LICENSEE shall keep and maintain full, true and accurate books of account containing all particulars which may be necessary for the purpose of showing the amount payable to M.I.T. by way of royalty as aforesaid. Said books shall be kept at LICENSEE'S principal place of business. Said books and the supporting data shall be available for inspection, during business hours, upon reasonable notice, by a certified public accountant designated by M.I.T. and approved by LICENSEE, which approval shall not be unreasonably withheld, for three (3) years following the year to which they pertain.

6.2 Within sixty (60) days of March 31 and September 30 of each calendar year during the license term, LICENSEE shall make to M.I.T. a royalty report stating the number of copies of the Program which have been sold, leased, sublicensed for end-use or otherwise distributed during the preceding six (6) month period and the amount of royalties due. With each such royalty report, LICENSEE shall pay to M.I.T. the royalties due. If no royalties shall be due, it shall be so reported

7. WARRANTIES

LICENSEE AGREES THAT RIGHTS GRANTED ARE MADE AVAILABLE WITHOUT WARRANTY OF ANY KIND EXPRESSED OR IMPLIED INCLUDING, BUT NOT LIMITED TO, THE IMPLIED WARRANTIES OF MERCHANTABILITY AND FITNESS FOR A PARTICULAR PURPOSE, AND FURTHER INCLUDING NO WARRANTY AS TO CONFORMITY WITH WHATEVER USER MANUALS OR OTHER LITERATURE MAY BE ISSUED FROM TIME TO TIME.

8. LIMITATION OF LIABILITY

LICENSEE agrees that neither M.I.T. nor any of its employees, agents or contractors shall be liable under any claim, charge, demand, whether in contract, tort or otherwise, for any and all loss, cost, charge, claim, demand, fee, expense or damage of any nature or kind arising out of, connected with, resulting from or sustained as a result of executing this Agreement or for performing all or any part of this Agreement. In no event shall M.I.T. be liable for special, direct, indirect or consequential damages, losses, costs, charges, claims, demands, fees or expenses of any nature or kind.

9. TERMINATION

9.1 Upon any material breach of this Agreement by LICENSEE, M.I.T. shall have the right to terminate this Agreement by giving thirty (30) days written notice thereof to LICENSEE. Such termination shall become effective unless LICENSEE shall have cured any such breach prior to the expiration of said thirty (30) day period.

9.2 If LICENSEE shall become bankrupt or insolvent or shall file a petition in bankruptcy, or if the business of LICENSEE shall be placed in the hands of a receiver, assignee or trustee for the benefit of creditors, whether by the voluntary act of LICENSEE or otherwise, this Agreement shall automatically terminate.

9.3 LICENSEE shall have the right to terminate this Agreement at any time upon thirty (30) days notice by certified mail to M.I.T.

10. EFFECTS OF TERMINATION

10.1 Upon termination for any reason, LICENSEE shall provide M.I.T. with written assurance that the original and all copies of the Program, including partial copies in modifications, have been destroyed, except that, upon prior written authorization from M.I.T., LICENSEE may retain a copy for archive purposes.

10.2 Termination of this Agreement for whatever reason shall not be construed to release either party from any right or obligation that matured prior to the date of such termination.

10.3 Upon termination of this Agreement for any reason, the rights of LICENSEE'S customers to the use and enjoyment of the Program in accorddance with any sublicense granted by LICENSEE pursuant to the provisions of Paragraph 1 hereof prior to such termination shall not be abridged or diminished in any way so long as LICENSEE shall continue to pay to M.I.T. any royalties otherwise due on account of such sublicensing.

11. NON-USE OF NAMES

LICENSEE shall not use the name of Massachusetts Institute of Technology nor the names of any of its employees nor any adaptation thereof in any advertising, promotional or sales literature without prior written consent obtained from M.I.T. in each case.

12. NOTICES AND OTHER COMMUNICATIONS

Any notice, consent, demand or other communication required or permitted under this Agreement shall be sufficiently made or given on the date of mailing if in writing and sent to such party by registered or certified mail, postagne prepaid, addressed to it at its address below or as it shall designate by wirtten notice given to the other party:

In the case of M.I.T.:

Patent and Copyright Office
Massachusetts Institute of Technology
77 Massachusetts Avenue, Room E19-722
Cambridge, Massachusetts 02139

In the case of LICENSEE:

13. MISCELLANEOUS

13.1 This Agreement shall be governed by and construed in accordance with the laws of the Commonwealth of Massachusetts.

13.2 This instrument contains the entire agreement between the parties hereto and supersedes all prior agreements with respect to the subject matter hereof.

13.3 Any mondification of the Agreement to be effective must be in writing and signed by both parties.

13.4 If one or more of the provisioins of this Agreement shall be held to be invalid, illegal or unenforceable in any respect, the validity, legality and enforceability of the remaining provisionms shall not in any way be affected or impaired thereby.

13.5 This Agreement shallb e binding on the parties and their succsssors in interest; LICENSEE 'S rights and obligations hereunder shall not oterhwise be assignable without M.I.T.'s prior written consent.

13.6 The failure of either party to assert a right hereunder or to insist upon compliance with any terms or condition shall not constitute a waiver of that right or excuse the subsequent nonperformance of any such term or condition by the other party.

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals and duly executed this Agreement the day year first above written.

Attest: MASSACHUSETTS INSTITUTE OF TECHNOLOGY

_____ By_____
Title_____ Title_____

Attest:

_____ By_____
Title_____ Title_____

APPENDIX

COPYRIGHT NOTICE SPECIFICATIONS

A. LICENSEE and any party licensed or otherwise permitted by LICENSEE to reproduce the computer programs and materials licensed hereunder shall include a notice of copyright on each such reproduction, whether made in whole or in part and regardless of the form in which made. Said notice of copyright shall be in accordance with the following specifications.

1. The notice shall appear in the same form and location as it appears on the copy being reproduced.

B. If no notice appears on the copy (or portion thereof) being reproduced, a notice shall be placed as follows:

1. The notice shall read:

"Copyright c (date of first publication), Massachusetts Institute of Technology

2. The notice shall be positioned:

(a) For printed materials, including documentation -- on the first title page or, if no title appears on the portion reproduced, on the first page of such portion.

(b) For computer materials --

(i) on a gummed or other label securely affixed to the copies or to a box, reel, cartridge, cassette or other container used as a permanent receptacle for the copy, and

(ii) in the body of the machine-readable form in such a manner that, on visually perceptible printouts, it appears either with the title or at the end of the work.

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